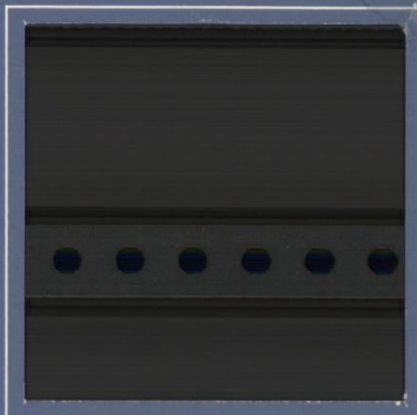


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# Annual Report

Fiscal Year Ending  
June 30, 1976

The Quaker Oats Company



Since 1877





Ninety-nine years ago, on September 4, 1877, the trademark of The Quaker Man was officially registered with the U.S. Patent Office; we are now entering the 100th anniversary year.

A very early rendering of The Quaker Man is shown below.

Over the years, the trademark was modified and extended to cover a variety of wholesome food products marketed internationally as well as in the United States. Today, it is one of the best known



business symbols in the world — synonymous, as always, with high standards of quality and value.



The Quaker Man has been updated many times to keep him contemporary with trends in packaging. One particularly warm and friendly version is the current brandmark for Quaker Oats and many other consumer products marketed under the Quaker name.



The Quaker corporate trademark, a contemporary rendition of The Quaker Man, was created in 1970 to represent the Company as a whole. This modern design continues to symbolize the traditional values for which The Quaker Man was first chosen a hundred years ago.

Other well known Company brands and trademarks are featured in a special section beginning on page 52.



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## ***The Quaker Oats Company Today***

A diversified corporation that manufactures and markets worldwide a broad line of consumer products and specialty chemicals.

The Grocery Products Area includes: in the U.S. and Canada — hot and ready-to-eat cereals; mixes, syrup, and corn products; frozen foods and pet foods. Internationally — cereals, pet foods, mixes, nutritional beverages, chocolate products, and canned seafood.

The Diversified Businesses Area includes: preschool and school-age toys, art and craft kits and mail order, specialty chemicals, crepe restaurants, and specialty cookies and crackers.

## ***Automatic Dividend Reinvestment***

This voluntary service, offered by the Company since 1971, provides a simple and inexpensive way for owners of Quaker common stock to use their dividends to purchase additional shares on a continuing basis. Cash investments may also be made. For further information, please write or call the Secretary's Office.

## ***Annual Meeting***

All shareholders are encouraged to attend the annual meeting, which will be held this year on Wednesday, November 10, 1976, in the sixth floor assembly room at The Northern Trust Company, 50 South LaSalle Street, Chicago, Illinois. The meeting will begin promptly at 9:30 a.m. A formal notice of this meeting and all proxy materials will be mailed to shareholders early in October. At the same time, proxies will be solicited by management.



## Financial Highlights

| Year Ended June 30                 | 1976               | Thousands of Dollars |                             |
|------------------------------------|--------------------|----------------------|-----------------------------|
|                                    |                    | 1975                 | Percent Increase (Decrease) |
| Net sales                          | <b>\$1,473,052</b> | \$1,389,013          | 6.1                         |
| Operating income                   | <b>124,312</b>     | 93,734               | 32.6                        |
| Interest expense (net)             | <b>13,426</b>      | 26,441               | (49.2)                      |
| Income before income taxes         | <b>110,886</b>     | 67,293               | 64.8                        |
| Net income                         | <b>53,093</b>      | 31,037               | 71.1                        |
| Preferred and preference dividends | <b>5,206</b>       | 1,103                | 372.0                       |
| Net income available for common    | <b>47,887</b>      | 29,934               | 60.0                        |
| <b>Per Share</b>                   |                    |                      |                             |
| Net income per common share        | <b>\$2.31</b>      | \$1.45               | 59.3                        |
| Preferred dividends declared       | <b>3.00</b>        | 3.00                 | —                           |
| Preference dividends declared      | <b>9.56</b>        | 1.35                 | 608.2                       |
| Common dividends declared          | <b>.84</b>         | .80                  | 5.0                         |
| <b>Common Stock</b>                |                    |                      |                             |
| Average shares outstanding         | <b>20,711,092</b>  | 20,699,008           | 0.1                         |

### Shareholder Services

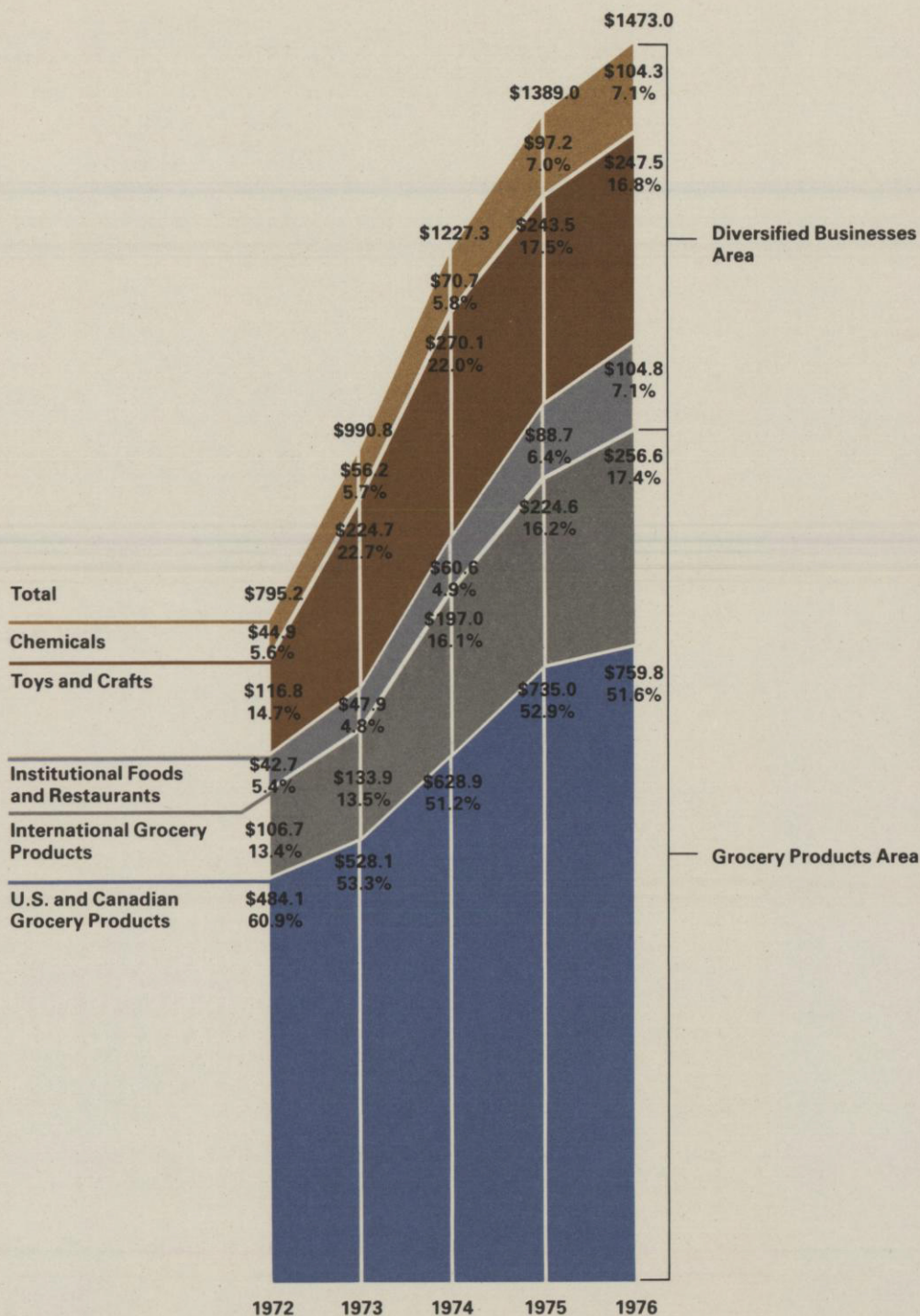
As a shareholder, please feel free to contact the Office of the Secretary about any matter related to your Quaker common, preferred or preference stock. Please write: Shareholder Services, The Quaker Oats Company, Merchandise Mart Plaza, Chicago, Illinois 60654, or telephone: (312) 222-6751.

General questions or comments about the business are always welcomed by the senior officers, who may be contacted at the same address.

Should you desire advice on any matter related to the purchase or sale of Quaker stock, please contact a stockbroker, banker or other investment advisor in your community.

# Consolidated Sales

Sales in Millions of Dollars





## To Our Shareholders and Employees:

Fiscal 1976 was an excellent year.

From the point of view of U.S. consumers, there was good news, as inflation rates declined, employment increased, and economic growth returned. Internationally, economic conditions also generally improved.

In the United States, there was a revival of the national spirit and sense of purpose in celebration of the Bicentennial. We were impressed by the extent to which people around the world, including our employees, joined in recognition of the U.S. achievement.

### ***Fiscal 1976 Earnings***

There was also excellent news at Quaker. Our earnings rebounded substantially in fiscal 1976 to record levels. These record earnings were achieved despite the absorption of both substantial operating losses and a write-off in connection with the sale of the Marx Toys Division.

*Earnings* of \$2.31 per share are *after* the 57 cents write-off for the April sale of Marx.

The per-share earnings were 13 percent ahead of fiscal 1973, our previous record year, and 59 percent ahead of fiscal 1975.

### ***Operations Progress***

Excellent operating results were highlighted by the sharply improved profit in grocery products worldwide, and were achieved by a combination of effective management, favorable commodity costs, and a generally improved economy. All major areas of our business except the Chemicals Division had strong years. Improvements in the large grocery divisions and subsidiaries were accompanied by fine years at the Fisher-Price, Magic Pan, Burry and Needlecraft Divisions.



The Chemicals Division experienced volume softness during the year, but we continue to be optimistic about long-term potential.

Our toy business, a problem a year ago, is now in good shape. First, Fisher-Price — always inherently strong as the quality leader in its product lines — had a good year, with fine increases in sales and earnings. Prospects for Fisher-Price this coming Christmas are good. Second, we eliminated a costly problem business — Marx Toys. The sale involved substantially all of the assets of the U.S. and Canadian Marx businesses, plus the stock in Marx Hong Kong operations. We retained the successful Marx business in Mexico. (Complete details of the sale are on page 27.)

### ***Financial Progress***

We are also pleased that our better earnings were accompanied by a stronger balance sheet and improved financial ratios. In fact, our target objectives for these ratios were exceeded. New reporting systems were instituted with greater emphasis on return on invested capital. At year-end, accompanying the higher net earnings:

1. Our balance sheet is very strong.
2. Return on common shareholders' equity improved to 12.8 percent from 8.7 percent in fiscal 1975.
3. Our operating income margin, unacceptably low last year, is now at a more satisfactory level.

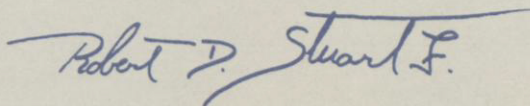
### ***Outlook***

In our Annual Report a year ago, I expressed confidence that tough, corrective measures, improved organization and more effective internal controls had strengthened our Company. Now, a year later, that observation has been confirmed by excellent performance.

More than anything else, the people of our Company produced the fine fiscal 1976 results. This Annual Report has a unique section on our employees as shareholders, beginning on page 18, and I draw your particular attention to it.

In the United States, we've been renewed by the goodwill that resulted from our nation's Bicentennial celebration, and throughout most of the world the outlook for the year ahead is encouraging. At Quaker, we're now entering the 100th anniversary year of the registration of our original Quaker Man trademark. We try constantly to keep in mind that this mark and its more contemporary versions stand for certain basic values in products, services, employment and corporate citizenship that shareholders and employees can be proud of.

In this, the 100th year of The Quaker Man, we believe we are well positioned with proven management talent, strong basic businesses, excellent financial condition and good forward momentum to meet aggressive objectives in the future.

A handwritten signature in blue ink that reads "Robert D. Stuart, Jr." The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Robert D. Stuart, Jr.  
President and  
Chief Executive Officer

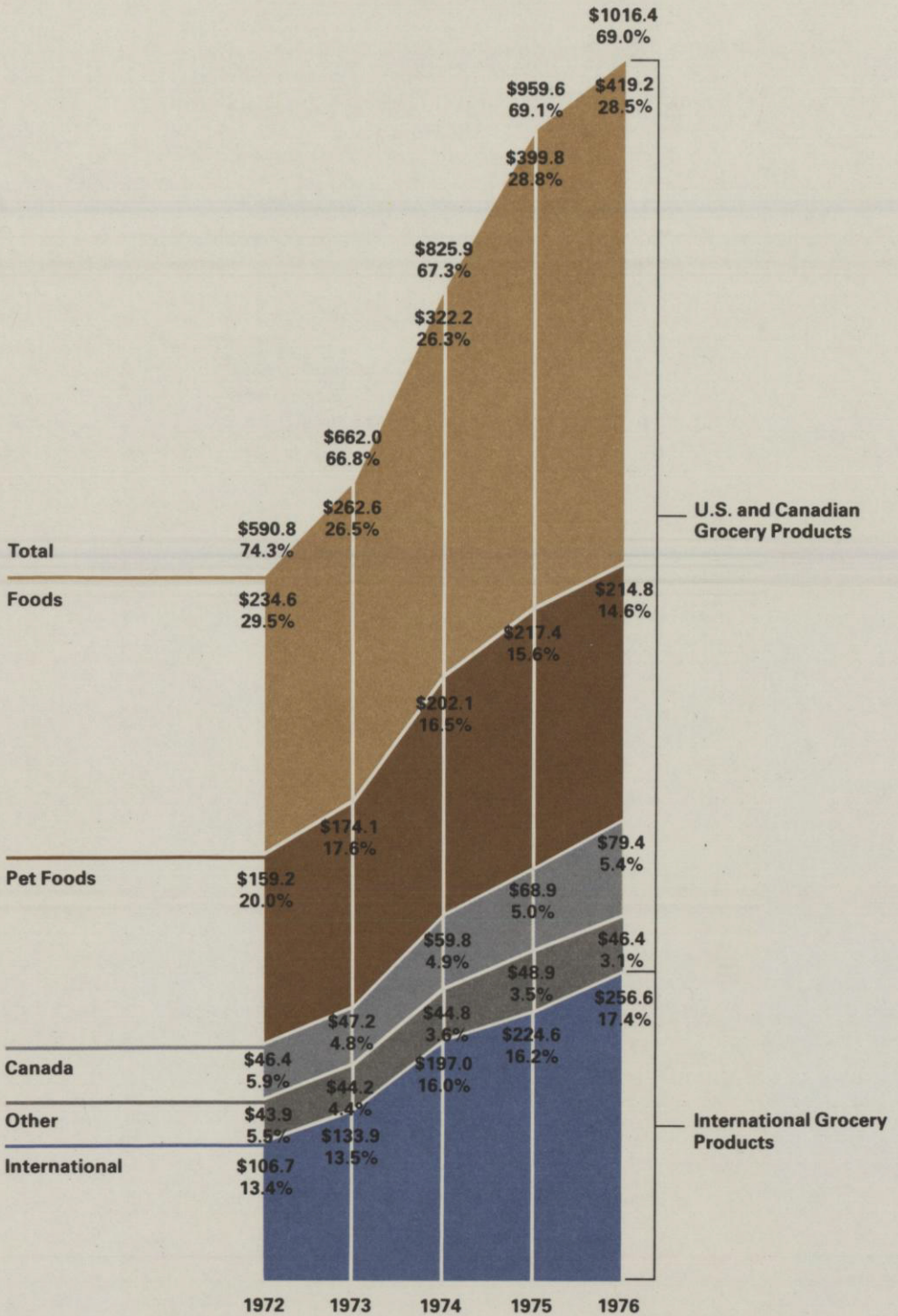
September 4, 1976



# Grocery Products Area

Sales in Millions of Dollars

Percents of Consolidated Sales



## Grocery Products Area

Quaker's foods and pet foods purchased by consumers in grocery stores worldwide are included in the Grocery Products Area, which accounted for 69 percent of the Company's sales in fiscal 1976. These grocery products carry some of the best-known brand names and represent some of the best values in the world.

Approximately 67 percent of the Area sales volume is in the United States, 8 percent in Canada, 14 percent in Europe, and 11 percent in Latin America and the Pacific region.

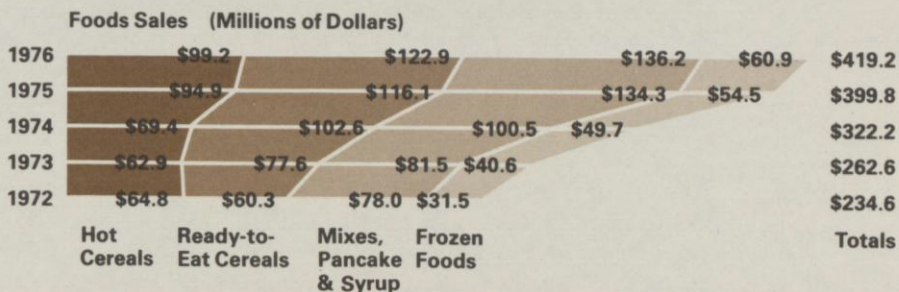
Fiscal 1976 was a very strong profit year for the Grocery Products Area. After two flat years, profits turned up substantially, and margins are now at satisfactory levels.

There were several significant elements underlying the sharp improvement in the past fiscal year:

1. More effective purchasing management and lower commodity costs were the largest factors in improved profits this year, although commodity costs remained well above levels of 1973 and earlier.
2. Margins were up significantly, despite continuing cost pressures in every area except commodities.
3. Emphasis on productivity improvements and cost controls favorably affected operating income.
4. Market shares were generally firm, supported by a 20 percent increase in marketing expenditures.
5. International sales volume and profitability were both up significantly.
6. Key management changes instituted in January, 1975, contributed significantly to the improvement. The Area organization that produced the excellent fiscal 1976 results is shown on page 50.

### U.S. Foods Division

This Division is responsible for U.S. manufacturing and marketing of hot and ready-to-eat cereals, pancake mixes and syrup, corn products and frozen foods. Sales were up 5 percent. Operating income was up very substantially compared with the prior year. Marketing expenses were also up significantly from last year.





**Hot Cereals** Sales of both traditional and instant varieties of Quaker Oatmeal were 5 percent better than last year. The hot cereal category is a solid business, and is particularly strong when consumers are sensitive to the value of their food purchases.

**Ready-to-Eat Cereals** enjoyed the best profit year in the Company's history. Life cereal continued its excellent growth. This nutritional cereal has one of the best growth records in the ready-to-eat category, which as a whole is growing about 7 percent a year. Cap'n Crunch remained in a leadership position in children's cereals, even though the introduction of Punch Crunch, a fruit-flavored line extension, was not successful. In fiscal 1976 Quaker 100% Natural Cereal held its share consistently in the natural cereal market, and is now ranked as one of the top ready-to-eat cereals in the United States.

**Mixes, Syrup and Corn Products** Total sales of Quaker and Aunt Jemima pancake mix, cornmeal, grits, and Aunt Jemima syrup were slightly ahead of last year. This section of our business experienced increased volume during the U.S. recession. With the economic recovery, volume has stabilized, but at a higher base. Aunt Jemima continues to be the brand leader in mixes, cornmeal, and grits, and moved up to second place in the table syrup business. A new Quaker Oatmeal Cookie mix was just introduced nationally.

**Frozen Food** sales increased significantly during fiscal 1976. A key factor was higher sales of Celeste Frozen Pizza. Celeste now enjoys national distribution with a broad line of pizzas. The brand has a strong share of the total frozen pizza market, which is growing at well over 10 percent a year. New 10- and 8-inch sizes have been very successful additions to our line. Although our frozen waffle and French toast business has not yet recovered from recession-induced declines, this was more than made up for by strong sales of a new Aunt Jemima Frozen Pancake Batter, introduced last fall and now the leader in this specialty category. A key objective of our frozen foods business is to achieve an adequate return on investment.

**Operations** Significant progress was made in cereals and mixes operations during the year. Productivity was increased considerably, and cost-saving projects contributed effectively to profitability. Purchasing decision-making was reorganized at the division management level, with encouraging results.

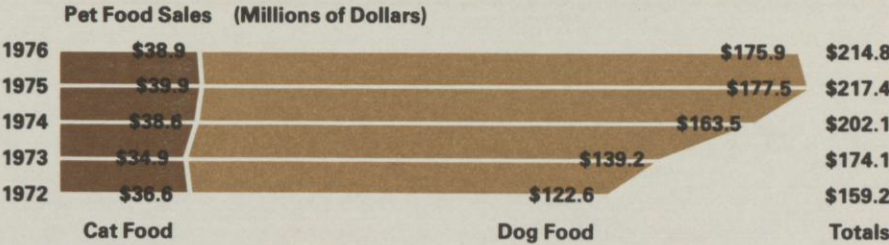
The Foods Division operates six U.S. plants, all of which are excellent, contemporary food processing operations. Our frozen production is now concentrated at the Jackson, Tennessee, plant, one of the finest frozen food plants in the world.

**U.S. Pet Foods  
Division**

The Pet Foods Division achieved its fiscal 1976 objective of significantly improving profitability.

Profits were up sharply from last year's depressed levels. Both volume and dollar sales of Ken-L Ration dog food and Puss 'n Boots cat food in the U.S. were about the same as last year, in line with expectations.

Commodity costs were down. Strong management emphasis on plant productivity, product and distribution efficiencies and overhead-reduction programs contributed significantly to the profit improvement. Two small coastal plants were closed during the year, reducing overhead. The Division now operates three modern plant facilities.

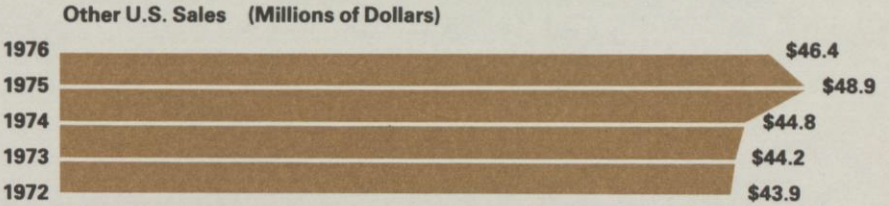


Canned dog food volume was about the same as last year, halting a downward trend. A new beef-flavored canned dog food is now in test market. Two new Ken-L Ration Burger products have performed very well — Burger 'n Egg, introduced nationally at the beginning of fiscal 1976, and Burger and Liver, introduced nationally in January. A distinctive product to compete in the dry dog food category, Ken-L Ration Tender Chunks, has just entered test market.

In cat food, the basic Puss 'n Boots canned product showed some added volume strength during the fiscal year. A new flavor, Fisherman's Platter, was successfully introduced. Puss 'n Boots Moist Meals continues to rank second in the semi-moist cat food category in the 50 percent of the U.S. market where it is sold.

**Other U.S.  
Sales**

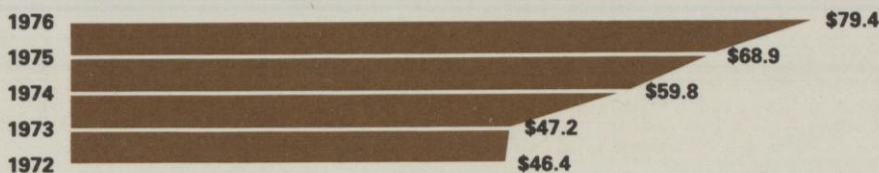
The most distinctive business in the "Other U.S. Sales" category is our very successful Wolf Brand regional canned chili business, which operates in the southwestern United States. Sales and earnings were at record levels. Also included in this category are industrial cereal sales and sales of miscellaneous grains and by-products.





**Canada** The Quaker Oats Company of Canada Limited had a very good year, with sales up significantly and an earnings increase more than twice the rate of the sales improvement. Lower commodity costs were important, although significant production efficiencies also contributed. Prior-year business had been affected by a two-month strike at our pet food plant in Ontario.

**Canadian Grocery Products Sales (Millions of Dollars)**



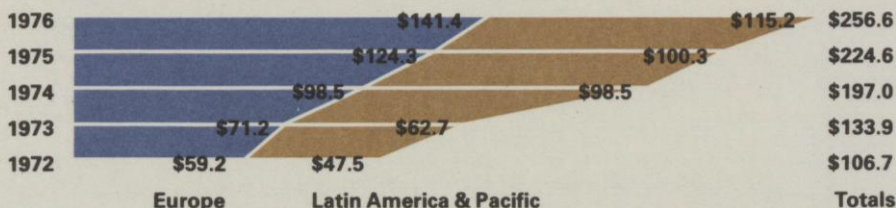
Sales volume is about evenly divided between foods and pet foods. The Canadian Company, which recently celebrated its 75th anniversary, is a major food processor there. It is the Canadian market leader in hot cereals, pancake mix, frozen waffles and pet foods. In addition, our Quaker Harvest Crunch, similar to Quaker 100% Natural Cereal in the U.S., is the leading brand in its category.

**International Grocery Products**

International Grocery Products is responsible for Quaker's grocery business — about 60 percent foods and 40 percent pet foods — outside the U.S. and Canada. In terms of sales, the largest businesses are in the United Kingdom, Mexico, the Benelux countries, France, Scandinavia, Brazil and Australia, with smaller businesses in many other countries.

International sales in dollars were up 14 percent from last year, largely due to sales of Quaker France, which were included for the first time. Sales in dollars were adversely affected by foreign exchange rates. There was generally good volume growth, and operating income improved 54 percent.

**International Grocery Products Sales (Millions of Dollars)**



Price controls continue to be a factor in most countries where we operate. In the majority of cases, a pass-through of most cost increases is allowed, although there frequently is a lag between the dates we pay the higher costs and the later dates when they are reflected in pricing.

**Europe** Sales were \$141 million, with the addition of Quaker France more than accounting for the 14 percent gain over last year. In September we acquired 100% ownership of this subsidiary, which was formerly a joint venture. Profitability was up in the United Kingdom, although sales were off. Both sales and earnings improved on the Continent — particularly in pet foods.

While we have been in the cereals and mixes businesses in Europe for many years, the principal growth effort recently has been in pet foods — where overall market growth rates have been strong.

**Latin America and the Pacific** Sales in this region increased 15 percent from last year, to \$115 million. In Brazil there was a good volume increase in Coqueiro canned fish, as well as substantial increases in oats and corn products. There was significant turnaround from unsatisfactory sales and profit trends of the prior year in Australia, where pet foods are the focus of our business.

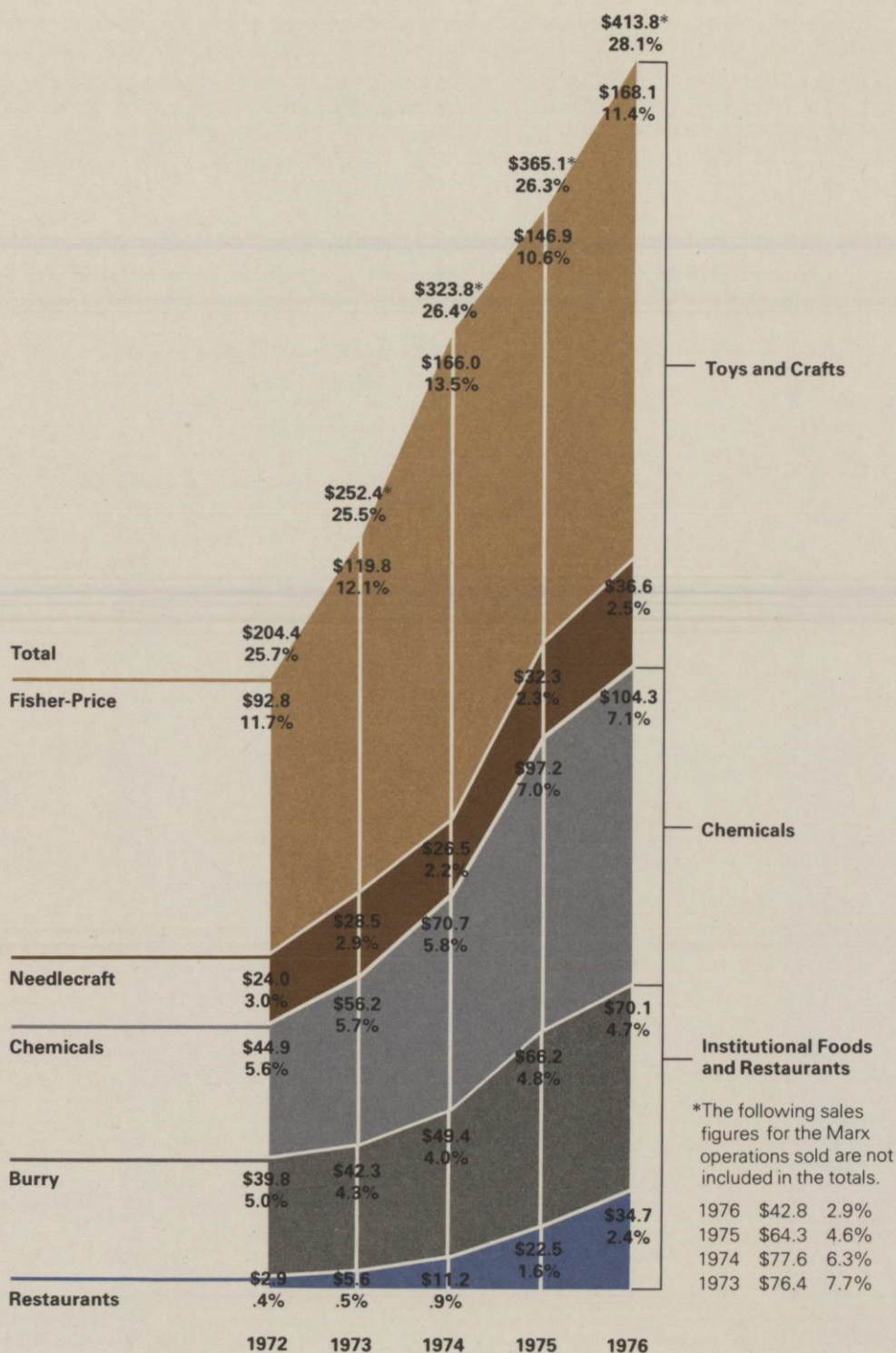
In Mexico, our La Azteca chocolate bar and beverage business significantly increased sales during the year. In Venezuela, volume and profitability were off. Other Latin American businesses did well.



# Diversified Businesses Area

Sales in Millions of Dollars

Percents of Consolidated Sales



## Diversified Businesses Area

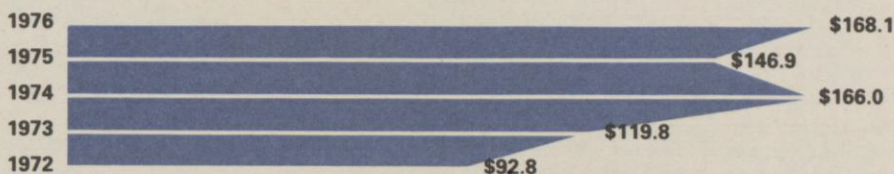
The Diversified Businesses Area consists of five operating divisions. A common denominator among the five is that each participates in specialty markets that have attractive growth potential, including quality toys, chemicals, certain areas of the food service business, theme restaurants, art needlecraft kits and mail order crafts. Each division is headed by a President, as listed on page 51, reporting to the Executive Vice President — Diversified Businesses.

Fiscal year sales of \$413.8 million for the five continuing divisions — Fisher-Price, Chemicals, Burry, Magic Pan and Needlecraft — were up 13 percent over last year, and operating income of \$53.1 million improved 18 percent. Marx Toys, which was formerly a sixth division in this area, operated at a substantial loss. A complete discussion of the Marx sale is on page 27.

### ***Fisher-Price Toys Division***

Fiscal 1976 sales of \$168 million were up 14 percent, and operating income was very substantially above the year-ago level. This improvement in performance exceeded the objectives set for Fisher-Price for the year.

**Fisher-Price Sales (Millions of Dollars)**



The improving economy, coupled with better sales forecasting and tighter production and inventory controls, contributed to these results, following the recession that affected most of the toy industry in the fall of 1974.

Fisher-Price toys enjoy a well-established reputation for unique design, high-quality manufacture, and superior play value. The Fisher-Price product line includes many toys that remain in heavy demand from year to year, some of them "classics," which form a solid basic business.

Within this framework, Fisher-Price has been broadening the scope of its product line in recent years. Starting with the extremely successful base of toys for preschool children, on which the division built its reputation, the line was extended downward in age-range to include Fisher-Price-quality products for infants. More recently, the product age-range was also moved upward to include toys for children in the early school years.



International expansion has become an important growth thrust in the division's business. Fisher-Price's superior product development capability is being applied internationally, where the division's quality manufacturing is gaining a consumer reputation. About a quarter of Fisher-Price sales are now outside the U.S., where we are incurring heavy initial marketing expenditures.

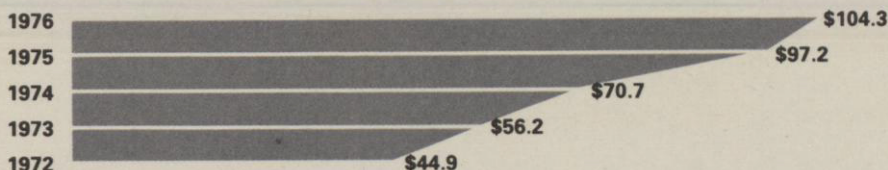
Quaker's 56 percent interest in the Marx Toys subsidiary in Mexico, Plastimarx, was retained after the sale of the other Marx operations, and is now operating as a part of Fisher-Price, with the able Mexican management continuing to run the business.

Orders, consumer interest and customer inventory levels of Fisher-Price toys are encouraging as we approach the 1976 Christmas season.

## Chemicals Division

The Chemicals Division is one of the Company's significant growth opportunities over the long term. In fiscal 1976, however, the Division faced a number of problems that produced a disappointing decline in unit volume and operating income, although dollar sales were up.

**Chemicals Sales (Millions of Dollars)**



Product development in this division is based on the Company's pioneering research in furan chemistry, going back more than half a century. The most important of these products is furfuryl alcohol (FA), which is widely used because it enhances the properties of resins used to bond sand for foundry cores and molds. Generally FA resins are most widely used in foundries that specialize in large-size castings. Furfural and other derivative products are used in a number of other industrial products and processes, particularly in the oil-refining, synthetic rubber and plastics industries.

Recognizing expanding markets for the division's products worldwide, the Company has made very substantial investments in recent years for large, capital-intensive production facilities in the United States and Europe. Future market development programs have also been under way in these areas and in Japan, where in fiscal 1975 a joint-venture — Kao-Quaker — was formed with the Kao Soap Company, a Japanese manufacturer of chemicals and detergents.

Because the supply of our chemicals had been insufficient to meet demand, they were on allocation for a little over two years. With increasing supplies, we were able to remove allocations in January, 1976.

At that time many customers reduced their purchases in order to work off inventories built up during the allocation period, and our largest single end user, the foundry industry worldwide, experienced a business decline. This industry historically lags behind consumer goods in both economic recession and recovery. Low pricing of competitive chemicals was also a significant factor in the market.

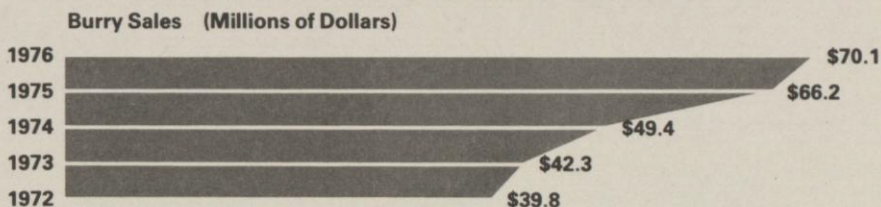
In fiscal 1976, these factors — combined with higher raw material costs and planned start-up expenses throughout the year for the major new furfural and furfuryl alcohol plant at Bayport, Texas, near Houston — adversely affected Chemicals Division operating results. Construction of the Texas plant was started in 1974, with full production capacity anticipated in about two years.

Division operating income during the year was reduced by a pre-tax charge of \$1.3 million related to the adoption of the LIFO method of pricing domestic Chemicals Division inventories. Unfavorable exchange rates also affected earnings, since a significant portion of the division's business is done in Europe.

Thus, a combination of factors caused operating income to be off 47 percent from the record high achieved a year ago. We cannot be certain when a significant upward trend will resume. We do, however, remain confident that this business has fine potential.

### **Burry Division**

Burry products include specialty bakery products for four different markets — cookies for sale by Girl Scouts, wafers for ice-cream sandwich producers, institutional products made by both Quaker and Burry for the food service trade, and, in the Eastern section of the United States, cookies and crackers sold in grocery stores.



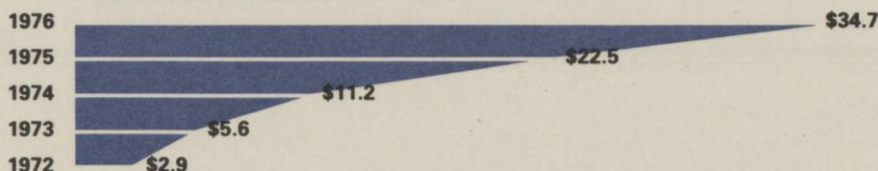
Division sales increased 6 percent from last year. Profits were at record levels for the second consecutive year.



**Magic Pan  
Division**

Magic Pan opened 10 new locations in fiscal 1976, bringing the total of these specialty restaurants to 38. Sales were up 54 percent, and earnings more than doubled. While the new restaurants added to overall sales, performance of the 28 restaurants that were opened prior to fiscal 1976 continued to grow. Significant additional potential is projected both in new locations and in the steadily expanding volume of existing units.

**Restaurant Sales (Millions of Dollars)**



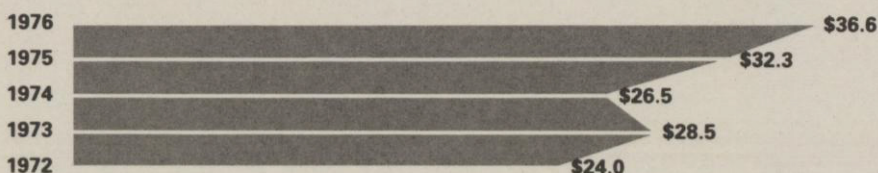
Menus feature outstanding crepes, palacsintas and other distinctive entrees for luncheon, dinner and late-evening dining served in an attractive, relaxing atmosphere. New menu items created by the Magic Pan staff are added selectively, all in the context of a basic concept that has made these restaurants so successful.

Twenty new restaurants are expected to be opened during fiscal 1977. We opened our first restaurant outside the U.S. during the year in Toronto, and expect to open three more in Canada this year.

**Needlecraft  
Division**

Sales and operating income of the Needlecraft Division increased significantly in fiscal 1976.

**Needlecraft Sales (Millions of Dollars)**



The Needlecraft Division markets a wide range of needlework products sold through retail outlets, and operates Herrschners, Inc., a mail-order business. Both our needlecraft kits and the specialty mail order business have promising growth potential.

An attractive line of Wonder Art latchhook rug kits and supplies was introduced during the year. Plant expansions at LaFayette, Georgia, and Stevens Point, Wisconsin, were completed, and more recently a small plant at Fort Atkinson, Wisconsin, was closed to consolidate production.



## *Quaker's People Are Shareholders Too*

The Quaker Man, whose hundredth year we are observing, represents a century-old tradition of wholesome quality products. He also represents people — thousands of them, who care about this Company.

The excellent year we had in fiscal 1976 would not have happened without the efforts of everyone in our Quaker family. Almost twenty-four thousand employees worldwide, individually and as a team, made our sales and earnings reach new record levels.

Year in and year out, in record-breaking years and those that aren't, Quaker employees demonstrate their commitment to excellence in everything they do. The men and women of Quaker have a long tradition of dedication to their communities, to the betterment of their professions and trades, to public service. When "corporate social responsibility" became a focus of attention in the 1960's, it was already a well established and integral part of the Quaker philosophy, and the attitudes of our people. The same is true of "corporate ethics," where the high standards of Quaker and its people have existed for generations.

Some employees, like those pictured on the following pages, also have a commitment to Quaker's financial future beyond the value of their paychecks and employee benefits. These employees are owners of Quaker common stock, which they purchased voluntarily because they believe Quaker is a good financial investment for them as well as a good place to work.

The Company believes that employee stock ownership is beneficial to all the shareholders because it clearly unifies the interests of shareholders and employees. To create widespread employee stock ownership, to recognize the economic achievements of 200 years of the United States as a nation and a hundred years of The Quaker Man as a part of our economic system, and to salute loyal employees for their fine results

in fiscal 1976, the Board of Directors in July approved a unique employee stock award program, a portion of which is subject to shareholder approval. Under this program, a very large number of our U.S. employees will become direct share owners. We believe this will be a uniquely beneficial milestone in shareholder — employee relations.

As we add new employee shareholders, we wish to salute representative Quakers who have invested much of their time and some of their money in The Quaker Oats Company — people such as:

Alfred Nold, a packaging foreman at the St. Joseph, Missouri, cereals and mixes plant. "This Company has been good to my family and me for 35 years," he says. "I'm proud to own a small part of it."

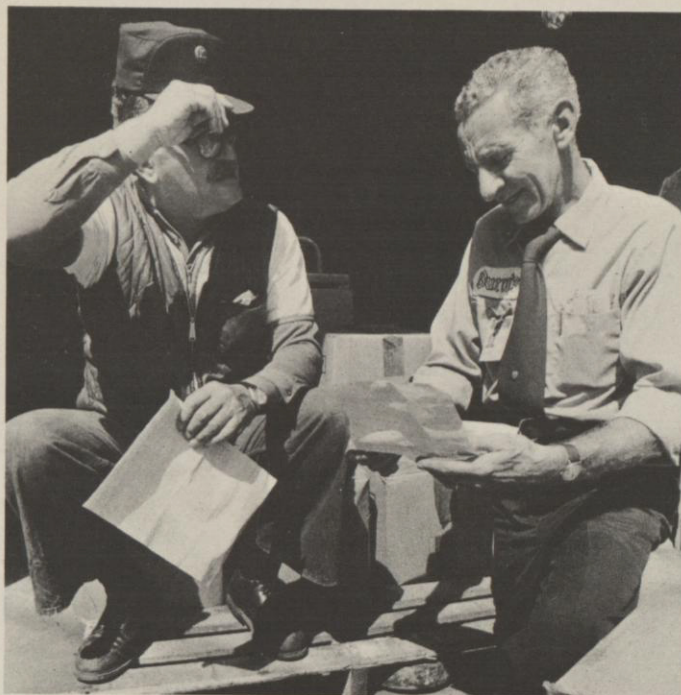
Helen Fries, administrative aide at the Fisher-Price Toys plant in Holland, New York, says, "When I saved a few extra dollars, I wanted to purchase Quaker stock. I believe in Fisher-Price and Quaker; they're both going to be around a long, long time."

And George Weeks, area maintenance supervisor at the Cedar Rapids, Iowa, cereals, mixes and chemicals complex, adds, "Owning Quaker stock gives me the incentive to do an even better job. Now I have more reason than ever to contribute to Quaker's success."

These employees and others you'll meet in these pages are just a few of the many people who have a double investment in our Company, as both employees and shareholders. It is their commitment and their concern, we're sure, that will keep The Quaker Man smiling as he moves toward his next hundred years.



*Administrative aide Helen Fries has been at the Fisher-Price plant in Holland, New York, for 15 years. With an ever-present twinkle in her eye, Helen claims to have trained many a plant manager over the years! She loves to travel, especially to visit her four young grandchildren. And she notes with some delight that "my grandchildren are being raised on Fisher-Price toys."*



*Dante Boschetti (right), a 25-year employee at the Burry Division plant in Elizabeth, New Jersey, is a general company driver, hauling everything from mail to butter and eggs. He looks forward to retiring in a few years to his mobile home in Florida.*





*Alfred Nold's 35-year involvement with Quaker is a family affair. A package foreman at the cereals and mixes plant in St. Joseph, Missouri, Al met his wife at Quaker. Sons Gregory (shown here), a microbiologist, and Michael, a bulk package foreman, are both employees at St. Joseph. And before young grandson Mark was born, daughter-in-law Jane was also a Quaker employee.*

*Mario Orosa (left) has been a process engineer at our John Stuart Research Laboratories in Barrington, Illinois, since 1971. Developing new and improved manufacturing and processing equipment is part of his responsibility. After hours, Mario can be found with tennis racket or camera in hand.*



*Jerry Hoffman (left), mechanic at the Shiremanstown, Pennsylvania, cereals and mixes plant, began his Quaker career at the Akron, Ohio, plant in 1948. A member of the plant's volunteer fire brigade, Jerry is also an active member of the "old timers" group there. Away from Quaker, Jerry devotes time to gardening and photography.*

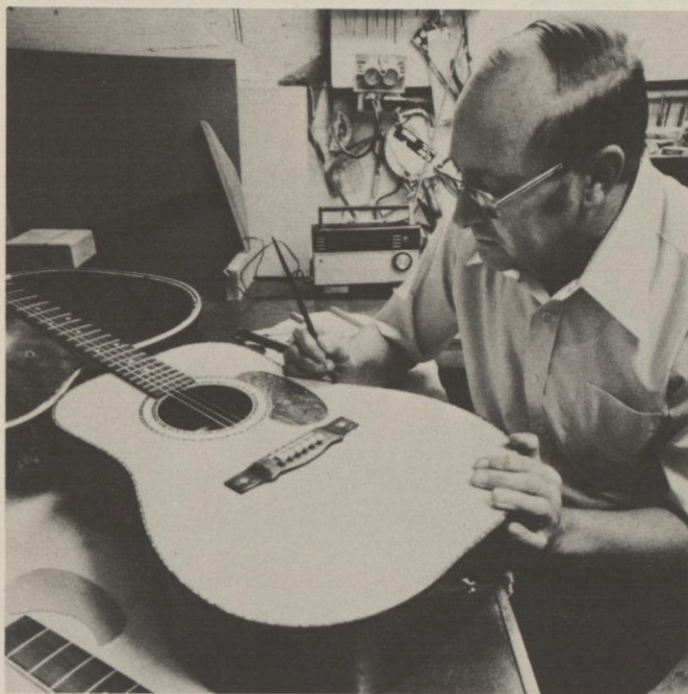


*Kathy Loseke (left), traffic supervisor at the Omaha, Nebraska, chemicals plant, has been with the company for 23 years. She and her husband Ken have been Quaker shareholders for nearly 20 of those years. Recently named the first woman director of Delta Nu Alpha, national educational transportation organization, Kathy devotes considerable energies to new and better traffic and transportation systems.*



*In Ray Miller's ten years with Quaker, he's already worked at three locations, but his company affiliation is far older than that. Now manager—industrial relations, Grocery Products, at corporate headquarters in Chicago, Ray (second from left), is a fourth generation Quaker. His great-grandfather founded the Miller "dynasty" when his small mill in Akron, Ohio, became part of the American Cereal Company, forerunner of Quaker.*





*Area maintenance supervisor George Weeks has been at Quaker's Cedar Rapids, Iowa, cereals and mixes plant for 14 years. George devotes much of his free time to his hobby—building handcrafted guitars. Now at work on his third guitar, George spends about a year on each one. He plays the finished product too, but “only my wife Anita is allowed to listen.”*

*When not working as a supervising chemist at our John Stuart Research Laboratories in Barrington, Illinois, Jack Thorson (left) skis on snow and water. Jack's terrain at Quaker is the analytical laboratory, where quality control is the goal. Product formulations are continually tested there to verify label claims and other supportive data.*



## Ten Year Financial Summary

Millions of Dollars  
Except Per Share

| Year Ended June 30(B)                                | 1976             | 1975      | 1974      |
|------------------------------------------------------|------------------|-----------|-----------|
| Net sales                                            | <b>\$1,473.0</b> | \$1,389.0 | \$1,227.3 |
| Cost of goods sold                                   | <b>1,016.2</b>   | 1,029.4   | 914.9     |
| Gross profit                                         | <b>456.8</b>     | 359.6     | 312.4     |
| Selling, general and<br>administrative expenses      | <b>304.0</b>     | 256.8     | 215.3     |
| Interest expense — net                               | <b>13.4</b>      | 26.4      | 21.1      |
| Other expense (income)                               | <b>28.5</b>      | 9.1       | (.5)      |
| Income before income taxes<br>and extraordinary item | <b>110.9</b>     | 67.3      | 76.5      |
| Provision for income taxes                           | <b>57.8</b>      | 36.3      | 36.6      |
| Income before extraordinary<br>item                  | <b>53.1</b>      | 31.0      | 39.9      |
| Extraordinary (charge) credit                        | <b>—</b>         | —         | —         |
| Net income                                           | <b>53.1</b>      | 31.0      | 39.9      |
| Preferred and preference<br>dividends                | <b>5.2</b>       | 1.1       | .4        |
| Net income available<br>for common                   | <b>\$ 47.9</b>   | \$ 29.9   | \$ 39.5   |
| Per common share: (A)                                |                  |           |           |
| Income before extraordinary<br>item                  | <b>\$ 2.31</b>   | \$ 1.45   | \$ 1.91   |
| Extraordinary (charge) credit                        | <b>—</b>         | —         | —         |
| Net income                                           | <b>\$ 2.31</b>   | \$ 1.45   | \$ 1.91   |
| Dividends declared                                   | <b>\$ .84</b>    | \$ .80    | \$ .76    |
| Current assets                                       | <b>424.8</b>     | 357.7     | 406.3     |
| Current liabilities                                  | <b>209.3</b>     | 149.0     | 221.8     |
| Net working capital                                  | <b>215.5</b>     | 208.7     | 184.5     |
| Net fixed assets                                     | <b>373.6</b>     | 358.2     | 319.3     |
| Long-term debt                                       | <b>148.7</b>     | 158.3     | 171.4     |
| Shareholders' equity                                 | <b>431.8</b>     | 400.7     | 338.4     |
| Return on common<br>shareholders' equity             | <b>12.8%</b>     | 8.7%      | 11.9%     |

(A) Adjusted for stock splits.

(B) Results for 1972 through 1968 have been restated to reflect the July, 1972 merger with Needlecrafft Corporation of America Inc., recorded as a pooling of interests. Prior years have not been restated since the effect is not material.

(C) Excludes extraordinary items.

| 1973           | 1972           | 1971           | 1970           | 1969           | 1968           | 1967           |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| \$990.8        | \$795.2        | \$701.9        | \$612.8        | \$562.3        | \$554.2        | \$555.1        |
| <u>692.7</u>   | <u>545.8</u>   | <u>482.3</u>   | <u>411.8</u>   | <u>382.1</u>   | <u>387.9</u>   | <u>403.0</u>   |
| <u>298.1</u>   | <u>249.4</u>   | <u>219.6</u>   | <u>201.0</u>   | <u>180.2</u>   | <u>166.3</u>   | <u>152.1</u>   |
| 201.5          | 172.4          | 153.1          | 142.6          | 130.3          | 122.8          | 114.4          |
| 11.0           | 6.6            | 5.6            | 2.0            | (.9)           | .8             | 1.1            |
| <u>.1</u>      | <u>(.2)</u>    | <u>.1</u>      | <u>(.2)</u>    | <u>.3</u>      | <u>.6</u>      | <u>.4</u>      |
| 85.5           | 70.6           | 60.8           | 56.6           | 50.5           | 42.1           | 36.2           |
| <u>43.4</u>    | <u>35.0</u>    | <u>29.7</u>    | <u>27.9</u>    | <u>24.5</u>    | <u>20.6</u>    | <u>17.4</u>    |
| 42.1           | 35.6           | 31.1           | 28.7           | 26.0           | 21.5           | 18.8           |
| <u>—</u>       | <u>—</u>       | <u>(5.9)</u>   | <u>—</u>       | <u>(1.1)</u>   | <u>—</u>       | <u>.9</u>      |
| <u>42.1</u>    | <u>35.6</u>    | <u>25.2</u>    | <u>28.7</u>    | <u>24.9</u>    | <u>21.5</u>    | <u>19.7</u>    |
| .4             | .5             | .5             | .5             | .5             | .5             | .5             |
| <u>\$ 41.7</u> | <u>\$ 35.1</u> | <u>\$ 24.7</u> | <u>\$ 28.2</u> | <u>\$ 24.4</u> | <u>\$ 21.0</u> | <u>\$ 19.2</u> |
| \$ 2.04        | \$ 1.78        | \$ 1.56        | \$ 1.45        | \$ 1.33        | \$ 1.11        | \$ .97         |
| <u>—</u>       | <u>—</u>       | <u>(.30)</u>   | <u>—</u>       | <u>(.06)</u>   | <u>—</u>       | <u>.05</u>     |
| <u>\$ 2.04</u> | <u>\$ 1.78</u> | <u>\$ 1.26</u> | <u>\$ 1.45</u> | <u>\$ 1.27</u> | <u>\$ 1.11</u> | <u>\$ 1.02</u> |
| <u>\$ .72</u>  | <u>\$ .68</u>  | <u>\$ .67</u>  | <u>\$ .63</u>  | <u>\$ .58</u>  | <u>\$ .53</u>  | <u>\$ .49</u>  |
| 313.8          | 247.7          | 199.9          | 185.8          | 149.7          | 149.3          | 137.4          |
| <u>157.7</u>   | <u>116.7</u>   | <u>89.3</u>    | <u>94.3</u>    | <u>68.5</u>    | <u>65.3</u>    | <u>57.9</u>    |
| <u>156.1</u>   | <u>131.0</u>   | <u>110.6</u>   | <u>91.5</u>    | <u>81.2</u>    | <u>84.0</u>    | <u>79.5</u>    |
| 272.1          | 243.9          | 200.4          | 181.3          | 142.6          | 129.1          | 116.2          |
| <u>123.8</u>   | <u>131.5</u>   | <u>96.4</u>    | <u>68.8</u>    | <u>18.9</u>    | <u>21.4</u>    | <u>22.9</u>    |
| 312.8          | 259.6          | 232.0          | 217.7          | 197.2          | 184.6          | 169.2          |
| 13.6%          | 14.0%          | 13.7% (C)      | 13.4%          | 13.5% (C)      | 11.7%          | 11.1% (C)      |



## Financial Review

**Sales** in fiscal 1976 were \$1.473 billion, compared with \$1.389 billion in the prior year and \$1.227 billion in fiscal 1974.

Unit volume was relatively stable on an overall basis in fiscal 1976. Two factors in the 6 percent sales increase were the full-year impact of price increases instituted during the prior year, and the addition for the first time of sales of Quaker France, a wholly owned subsidiary that previously was a joint venture. The 13 percent sales increase in fiscal 1975 over fiscal 1974 largely resulted from price increases.

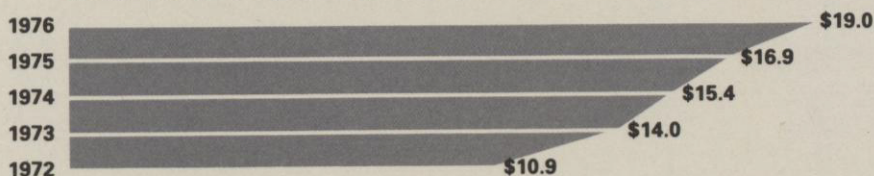
**Cost of goods sold** decreased \$13.2 million in fiscal 1976 because principal raw materials were purchased at significantly lower costs. In fiscal 1975, the cost of goods sold was above fiscal 1974 because of much higher raw material costs. Costs of labor, packaging, and distribution increased in both years. In addition, depreciation expenses and maintenance and repair expenses have increased in both years, primarily as a result of capital additions and a higher level of business activity, respectively.

**Selling, general and administrative** expenses were up 18 percent in fiscal 1976, to \$304 million, following a 19 percent increase in the prior year.

**Advertising and Merchandising Expenses** Of the fiscal 1976 increase, more than half was due to a 23 percent increase in consolidated advertising and merchandising, including consumer couponing, to provide continuing support for major brand-name franchises and market shares. Sixty-two percent of the fiscal 1975 increase, or \$25.8 million, was in advertising and merchandising expenses for domestic grocery products, to support established and new products in major categories — particularly pet foods.

**Research and Development Expenses** Research and development expenditures increased \$2.1 million in fiscal 1976. In fiscal 1975, R & D expenses were up 10 percent. These increases are consistent with Quaker's continuing emphasis on technical research and new product development. Not included in these figures are costs of market research or continuing quality assurance procedures performed in manufacturing operations.

**Research and Development Expenses (Millions of Dollars)**





**Other expenses (Marx sale)** A major expense item in fiscal 1976 was the pre-tax write-off of \$23.2 million, equivalent to 57 cents a share, in connection with the sale of substantially all of the assets of the U.S. and Canadian Marx businesses, and the stock in Marx Hong Kong operations to a U.S. subsidiary of Dunbee-Combex-Marx, Ltd., of London, England. Quaker received \$8.1 million in cash on the sale date, April 15, and D-C-M guaranteed further payment of \$10.0 million, due January, 1977, through January, 1982. Prior to the sale, operating losses in fiscal 1976 (loss before deduction of interest and income taxes) of \$12.2 million were incurred on the operations that were sold. In fiscal 1975 operating losses of the operations that were sold amounted to \$13.2 million, including about \$5 million of write-downs related to closing facilities and eliminating certain toy lines. The operations sold had sales of \$42.8 million in 1976 (prior to the sale) and \$64.3 million in 1975. Quaker's 56 percent interest in Plastimarx, the successful Marx Mexican subsidiary, was not included in the sale, and now operates as part of the Fisher-Price Toys Division.

**Net interest** expense declined 49% in fiscal 1976 to \$13.4 million, reflecting lower working capital requirements, lower interest rates, and the full-year effect of the \$50 million preference stock offering that was sold in May, 1975. This contrasts with the Company's experience in fiscal 1975, when expanded borrowing needs and higher interest rates resulted in an increase in net interest expense of 25 percent, to \$26.4 million.

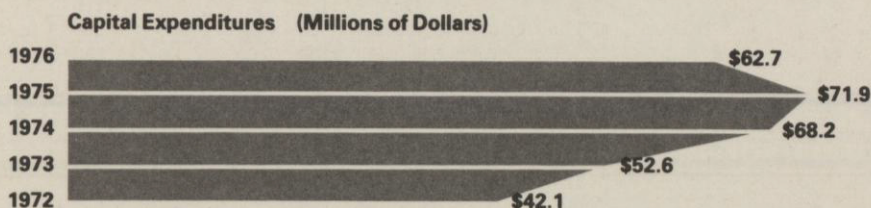
**Tax rate** in fiscal 1976 is 52.1 percent, down from 53.9 percent in the prior year, primarily because of a change of mix in earnings from domestic and international sources. The fiscal 1974 tax rate was 47.9 percent. The fiscal 1975 tax rate was higher than the 1974 rate due to the absence of a \$1.4 million gain from a tax-free disposition of land and lower tax-free earnings in Conservas Coqueiro, S.A.

**Net income** increased 71% in fiscal 1976 to \$53.1 million. In fiscal 1975, it was \$31 million, down 22 percent from the prior year.

The fiscal 1976 net income is after an \$11.9 million after-tax write-off related to the Marx sale and a \$600,000 after-tax charge related to the change to the LIFO method for pricing domestic Chemicals Division inventories. Fiscal 1975 net income was after a \$4 million after-tax charge to cover the costs of eliminating certain toy lines and a consolidation of facilities.



**Capital expenditures** in the last five years have totalled \$297.5 million. The new chemicals plant in Bayport, Texas, was a principal area of capital expense in fiscal 1975 and 1976. In fiscal 1977, an increase in capital expenditures is presently projected, with spending expected to be dispersed broadly throughout the business.



**Dividends** The Company's quarterly common share dividend was increased to 21 cents a share, effective with the payment on October 20, 1975. This was the ninth consecutive year in which the dividend was raised.

**Financing** Under arrangements with the Gulf Coast Waste Disposal Authority, Houston, Texas, \$15 million in solid waste disposal revenue bonds were issued. Of these, \$12 million are due in 2006 and carry an interest rate of 6½%, and \$3 million are due in 1991 with an interest rate of 5½%. The proceeds provide financing for the acquisition and construction of solid waste disposal facilities at the Company's new chemical plant in Bayport, Texas.

The Company's \$50 million revolving credit agreement was increased to \$75 million, and the maturity was extended to June 30, 1979. The Company also has domestic bank lines of credit totaling approximately \$100 million. None of the \$175 million bank facilities is currently in use. During the year, a \$20.2 million long-term note, due 1980, was prepaid.

Quaker's non-U.S. subsidiaries have credit facilities totaling \$68 million. At June 30, 1976, \$43 million of these facilities were not being used.

## Quarterly Financial Data (Unaudited)

### Year Ended June 30

Millions of Dollars  
Except Per Share

|                                                | First<br>Quarter<br>(Sept. 30)         | Second<br>Quarter<br>(Dec. 31)         | Third<br>Quarter<br>(Mar. 31)          | Fourth<br>Quarter<br>(Jun. 30)         | Full<br>Fiscal<br>Year   |
|------------------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|--------------------------|
| <b>1976</b>                                    |                                        |                                        |                                        |                                        |                          |
| Net sales                                      | \$385.7                                | \$394.8                                | \$356.3                                | \$336.2                                | \$1,473.0                |
| Cost of goods sold                             | 263.8                                  | 271.6                                  | 241.2                                  | 239.6                                  | 1,016.2                  |
| Gross profit                                   | <u>\$121.9</u>                         | <u>\$123.2</u>                         | <u>\$115.1</u>                         | <u>\$ 96.6</u>                         | <u>\$ 456.8</u>          |
| Net income                                     | \$ 22.0                                | \$ 4.9                                 | \$ 15.9                                | \$ 10.3                                | \$ 53.1                  |
| Preferred and<br>preference dividends          | <u>1.3</u>                             | <u>1.3</u>                             | <u>1.3</u>                             | <u>1.3</u>                             | <u>5.2</u>               |
| Net income available<br>for common             | <u>\$ 20.7</u>                         | <u>\$ 3.6</u>                          | <u>\$ 14.6</u>                         | <u>\$ 9.0</u>                          | <u>\$ 47.9</u>           |
| Income per common<br>share                     | 1.00                                   | .18                                    | .70                                    | .43                                    | 2.31                     |
| Cash dividends<br>declared per<br>common share | .21                                    | .21                                    | .21                                    | .21                                    | .84                      |
| Market price range per<br>common share         | 20 $\frac{1}{8}$ —<br>15               | 27 $\frac{1}{4}$ —<br>16 $\frac{3}{8}$ | 28 $\frac{3}{8}$ —<br>22 $\frac{3}{4}$ | 27 $\frac{3}{8}$ —<br>22 $\frac{3}{4}$ | 28 $\frac{3}{8}$ —<br>15 |
| <b>1975</b>                                    |                                        |                                        |                                        |                                        |                          |
| Net sales                                      | \$344.0                                | \$372.7                                | \$328.3                                | \$344.0                                | \$1,389.0                |
| Cost of goods sold                             | 261.2                                  | 282.5                                  | 239.9                                  | 245.8                                  | 1,029.4                  |
| Gross profit                                   | <u>\$ 82.8</u>                         | <u>\$ 90.2</u>                         | <u>\$ 88.4</u>                         | <u>\$ 98.2</u>                         | <u>\$ 359.6</u>          |
| Net income                                     | \$ 8.6                                 | \$ 5.4                                 | \$ 7.8                                 | \$ 9.2                                 | \$ 31.0                  |
| Preferred and<br>preference dividends          | <u>.1</u>                              | <u>.1</u>                              | <u>.1</u>                              | <u>.8</u>                              | <u>1.1</u>               |
| Net income available<br>for common             | <u>\$ 8.5</u>                          | <u>\$ 5.3</u>                          | <u>\$ 7.7</u>                          | <u>\$ 8.4</u>                          | <u>\$ 29.9</u>           |
| Income per common<br>share                     | .41                                    | .26                                    | .37                                    | .41                                    | 1.45                     |
| Cash dividends declared<br>per common share    | .20                                    | .20                                    | .20                                    | .20                                    | .80                      |
| Market price range per<br>common share         | 24 $\frac{3}{8}$ —<br>12 $\frac{1}{2}$ | 16 $\frac{1}{4}$ —<br>11               | 18 $\frac{1}{2}$ —<br>12 $\frac{3}{8}$ | 20 $\frac{1}{2}$ —<br>14               | 24 $\frac{3}{8}$ —<br>11 |



## Sales and Operating Income by Area

|                                     |          | Millions of Dollars |         |         |         |  |
|-------------------------------------|----------|---------------------|---------|---------|---------|--|
| Year ended June 30                  | 1976     | 1975                | 1974    | 1973    | 1972    |  |
| Sales and Operating Income          |          |                     |         |         |         |  |
| Grocery Products Area               |          |                     |         |         |         |  |
| U.S. and Canadian                   | \$759.8  | \$735.0             | \$628.9 | \$528.1 | \$484.1 |  |
|                                     | 88.9     | 50.3                | 48.3    | 51.1    | 43.5    |  |
| International                       | 256.6    | 224.6               | 197.0   | 133.9   | 106.7   |  |
|                                     | 17.7     | 11.5                | 14.0    | 6.8     | 5.3     |  |
| Total Grocery Products Area         | 1016.4   | 959.6               | 825.9   | 662.0   | 590.8   |  |
|                                     | 106.6    | 61.8                | 62.3    | 57.9    | 48.8    |  |
| Diversified Businesses Area         |          |                     |         |         |         |  |
| Toys and Crafts                     | 247.5    | 243.5               | 270.1   | 224.7   | 116.8   |  |
|                                     | (6.4)(A) | 3.5(B)              | 25.4    | 31.9    | 22.8    |  |
| Chemicals                           | 104.3    | 97.2                | 70.7    | 56.2    | 44.9    |  |
|                                     | 11.8     | 22.1                | 8.5     | 5.8     | 4.6     |  |
| Institutional Foods and Restaurants | 104.8    | 88.7                | 60.6    | 47.9    | 42.7    |  |
|                                     | 12.3     | 6.3                 | 1.4     | .9      | 1.0     |  |
| Total Diversified Businesses Area   | 456.6    | 429.4               | 401.4   | 328.8   | 204.4   |  |
|                                     | 17.7     | 31.9                | 35.3    | 38.6    | 28.4    |  |
| Total Sales                         | 1473.0   | 1389.0              | 1227.3  | 990.8   | 795.2   |  |
| Total Operating Income              | 124.3    | 93.7                | 97.6    | 96.5    | 77.2    |  |
| Less interest expense — net         | 13.4     | 26.4                | 21.1    | 11.0    | 6.6     |  |
| Income before income taxes          | \$110.9  | \$ 67.3             | \$ 76.5 | \$ 85.5 | \$ 70.6 |  |

**Sales figures — Black ink**

**Operating income figures — Blue ink**

(A) After a \$23.2 million pre-tax write-off provision resulting from the April 1976 sale of the U.S., Canadian and Hong Kong operations of the Marx Toys Division (equivalent to \$.57 per share).

(B) After pre-tax toy division charges of \$6.0 million related to the elimination of certain toy lines and the consolidation of facilities (equivalent to \$.19 per share).

# The Quaker Oats Company and Subsidiaries

## Consolidated Statements of Income and Reinvested Earnings

Thousands of Dollars

| Year Ended June 30                           | 1976                     | 1975                     |
|----------------------------------------------|--------------------------|--------------------------|
| <b>Net Sales</b>                             | <b>\$ 1,473,052</b>      | <b>\$ 1,389,013</b>      |
| Cost of goods sold                           | <u>1,016,220</u>         | <u>1,029,355</u>         |
| Gross profit                                 | <u>456,832</u>           | <u>359,658</u>           |
| Selling, general and administrative expenses | 304,037                  | 256,834                  |
| Interest expense—net                         | 13,426                   | 26,441                   |
| Other expense                                | <u>28,483</u>            | <u>9,090</u>             |
| <b>Income Before Income Taxes</b>            | <b>110,886</b>           | <b>67,293</b>            |
| Provision for income taxes                   | <u>57,793</u>            | <u>36,256</u>            |
| <b>Net Income</b>                            | <b>53,093</b>            | <b>31,037</b>            |
| Preferred and preference dividends           | 5,206                    | 1,103                    |
| <b>Net Income Available for Common</b>       | <b><u>\$ 47,887</u></b>  | <b><u>\$ 29,934</u></b>  |
| <b>Per Common Share:</b>                     |                          |                          |
| Net income                                   | <b>\$2.31</b>            | \$1.45                   |
| Dividends declared                           | <b>\$ .84</b>            | \$ .80                   |
| <b>Average Common Shares Outstanding</b>     | <b>20,711,092</b>        | 20,699,008               |
| <b>Reinvested Earnings:</b>                  |                          |                          |
| Balance beginning of year                    | <b>\$ 221,710</b>        | \$ 208,336               |
| Net income                                   | <b>53,093</b>            | 31,037                   |
| Dividends—preferred stock                    | <b>( 426)</b>            | ( 426)                   |
| — preference stock                           | <b>( 4,780)</b>          | ( 677)                   |
| — common stock                               | <b>(17,400)</b>          | (16,560)                 |
| Balance end of year                          | <b><u>\$ 252,197</u></b> | <b><u>\$ 221,710</u></b> |

See accompanying notes to consolidated financial statements.



# Consolidated Balance Sheet

## Assets

|                                                                             | Thousands of Dollars |                  |
|-----------------------------------------------------------------------------|----------------------|------------------|
| June 30                                                                     | 1976                 | 1975             |
| <b>Current Assets:</b>                                                      |                      |                  |
| Cash and marketable securities                                              | \$ 77,869            | \$ 17,607        |
| Receivables (less allowances of \$6,598<br>and \$6,696, respectively)       | 139,184              | 144,351          |
| Inventories                                                                 | 198,206              | 188,703          |
| Prepaid expenses                                                            | 9,562                | 7,010            |
| Current assets                                                              | <u>424,821</u>       | <u>357,671</u>   |
| <b>Other Receivables and Investments</b>                                    | <b>13,633</b>        | <b>5,385</b>     |
| <br><b>Property, Plant and Equipment, at cost:</b>                          |                      |                  |
| Land                                                                        | 8,801                | 9,506            |
| Buildings and improvements                                                  | 148,759              | 148,877          |
| Machinery and equipment                                                     | 358,800              | 333,040          |
|                                                                             | <u>516,360</u>       | <u>491,423</u>   |
| Less accumulated depreciation                                               | 142,772              | 133,237          |
| Properties — net                                                            | <u>373,588</u>       | <u>358,186</u>   |
| <br><b>Intangible Assets:</b>                                               |                      |                  |
| Excess of cost over net assets of acquired<br>businesses, less amortization | 40,188               | 37,907           |
| Patents, trademarks and designs,<br>less amortization                       | 2,717                | 5,913            |
|                                                                             | <u>\$854,947</u>     | <u>\$765,062</u> |

See accompanying notes to consolidated financial statements.

# The Quaker Oats Company and Subsidiaries

## Liabilities and Shareholders' Equity

|                                                                                                                                                             | Thousands of Dollars    |                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| June 30                                                                                                                                                     | 1976                    | 1975                    |
| <b>Current Liabilities:</b>                                                                                                                                 |                         |                         |
| Short-term debt                                                                                                                                             | \$ 46,240               | \$ 28,528               |
| Current maturities of long-term debt                                                                                                                        | 2,030                   | 678                     |
| Accounts payable and accrued expenses                                                                                                                       | 122,246                 | 108,013                 |
| Income taxes payable                                                                                                                                        | 33,179                  | 6,815                   |
| Dividends payable                                                                                                                                           | 5,655                   | 4,924                   |
| Current liabilities                                                                                                                                         | <u>209,350</u>          | <u>148,958</u>          |
| <b>Long-term Debt</b>                                                                                                                                       | <b>148,668</b>          | 158,283                 |
| <b>Other Liabilities</b>                                                                                                                                    | <b>15,579</b>           | 10,107                  |
| <b>Deferred Income Taxes</b>                                                                                                                                | <b>49,599</b>           | 46,967                  |
| <b>Shareholders' Equity:</b>                                                                                                                                |                         |                         |
| Preferred, \$50 par value, \$3 cumulative convertible, authorized 147,553 and 147,836 shares, respectively; issued 141,821 and 142,104 shares, respectively | 7,091                   | 7,105                   |
| Preference, without par value, \$100 stated value, \$9.56 cumulative, authorized 1,500,000 shares; issued 500,000 shares                                    | 50,000                  | 50,000                  |
| Common, \$5 par value, authorized 35,000,000 shares; issued 20,979,469 and 20,948,922 shares, respectively                                                  | 104,897                 | 104,745                 |
| Additional paid-in capital                                                                                                                                  | 23,193                  | 22,814                  |
| Reinvested earnings                                                                                                                                         | 252,197                 | 221,710                 |
|                                                                                                                                                             | <u>437,378</u>          | <u>406,374</u>          |
| Less treasury common stock, at cost                                                                                                                         | 5,627                   | 5,627                   |
| Shareholders' equity                                                                                                                                        | <u>431,751</u>          | <u>400,747</u>          |
|                                                                                                                                                             | <u><b>\$854,947</b></u> | <u><b>\$765,062</b></u> |



## Consolidated Statement of Changes in Financial Position

|                                                               | Thousands of Dollars |                 |
|---------------------------------------------------------------|----------------------|-----------------|
| Year Ended June 30                                            | 1976                 | 1975            |
| <b>Sources of Funds:</b>                                      |                      |                 |
| Operations                                                    |                      |                 |
| Net income                                                    | \$ 53,093            | \$ 31,037       |
| Depreciation and amortization                                 | 34,832               | 31,195          |
| Deferred income taxes                                         | 2,632                | 10,456          |
| Loss on sale of Marx non-current assets                       | 9,700                | —               |
| Total from operations                                         | <u>100,257</u>       | <u>72,688</u>   |
| Issuance of 500,000 shares of preference stock                | —                    | 50,000          |
| Proceeds from new long-term debt                              | 16,050               | 28,250          |
| Increase in other long-term liabilities                       | 5,472                | 1,911           |
| Proceeds from sale of Marx non-current assets                 | 6,646                | —               |
| Sales of properties — other                                   | 2,510                | 3,411           |
| Decrease in receivables                                       | 5,167                | 15,778          |
| Increase in accounts payable and accrued expenses             | 14,233               | 16,379          |
| Increase (decrease) in income taxes payable                   | 26,364               | (633)           |
| Increase (decrease) in short-term debt                        | 17,712               | (86,167)        |
| Other — increase (decrease) — net                             | 438                  | (1,283)         |
| Total funds provided                                          | <u>194,849</u>       | <u>100,334</u>  |
| <b>Uses of Funds:</b>                                         |                      |                 |
| Additions to properties                                       | 62,709               | 71,899          |
| Cash dividends paid                                           | 22,606               | 17,663          |
| Decrease in long-term debt                                    | 25,665               | 41,394          |
| Excess of cost over net current assets of acquired businesses | 5,856                | 505             |
| Increase (decrease) in inventories                            | 9,503                | (36,469)        |
| Increase (decrease) in other receivables and investments      | 8,248                | (583)           |
| Total funds used                                              | <u>134,587</u>       | <u>94,409</u>   |
| Net increase in cash and marketable securities                | <u>\$ 60,262</u>     | <u>\$ 5,925</u> |

See accompanying notes to consolidated financial statements.

## The Quaker Oats Company and Subsidiaries

### Notes to Consolidated Financial Statements

**Consolidation** The consolidated financial statements include The Quaker Oats Company and all subsidiaries. All significant intercompany accounts and transactions are eliminated. Investments in 20% to 50% owned companies are stated on the equity basis.

**Currency Translation** Non-U.S. currency items are translated into U.S. dollars at year-end exchange rates for assets and liabilities and average annual exchange rates for income items, except properties and intangibles and related depreciation and amortization, which are translated at rates in effect at the time of acquisition.

Unrealized translation gains are credited to a reserve, except to the extent that they offset previously recorded losses; unrealized losses in excess of previously established reserves are charged to income. Gains and losses on forward exchange contracts are recognized in income upon settlement.

The Company will adopt the provisions of Financial Accounting Standards Board Statement No. 8 next fiscal year, as required. The provisions of the Statement, if applied to 1976 and 1975, would have had no material effect on net income.

**Intangibles** Excess of cost over net assets of acquired businesses, including \$27,468,000 related to acquisitions prior to November 1, 1970 (principally Fisher-Price Toys, Inc.), represents the amounts paid in excess of the fair values of the net assets of such businesses, less amortization. Such costs are considered to represent continuing values and are adjusted if reduction of the continuing values of underlying businesses is indicated. As required by current accounting rules, all such costs resulting from acquisitions after October 31, 1970, are amortized over periods not in excess of 40 years. Amortization for 1976 and 1975 was \$1,345,000 and \$808,000, respectively.

Costs incurred in acquiring patents, trademarks and designs are amortized on a straight-line basis over their estimated useful lives. Amortization for 1976 and 1975 was \$523,000 and \$811,000, respectively.

**Inventories** Inventories are priced at the lower of cost (first-in, first-out for toys and crafts products, last-in, first-out for domestic chemical products, and principally average annual cost for other products) or market. Inventory costs include material, labor and factory overhead.

In the fourth quarter of 1976, the Company changed its method of pricing domestic Chemical Division inventories from average annual cost to last-in, first-out (LIFO). This change was made retroactive to the beginning of the fiscal year. The effect of the change was to reduce net income by 3 cents a share.



The following inventories were used in computing costs of goods sold:

|                     | Thousands of Dollars    |                          |
|---------------------|-------------------------|--------------------------|
|                     | 1976                    | 1975                     |
| Finished goods      | <b>\$116,948</b>        | \$ 101,222               |
| Grain and materials | <b>70,309</b>           | 74,767                   |
| Supplies            | <b>10,949</b>           | 12,714                   |
|                     | <b><u>\$198,206</u></b> | <b><u>\$ 188,703</u></b> |

**Depreciation and Properties** Depreciation is computed using the straight-line method, which is designed to recover the cost of the properties over their estimated useful lives. The rates used were:

|                                                        |            |
|--------------------------------------------------------|------------|
| Buildings and improvements                             | 2% to 6%   |
| Machinery and equipment                                | 4% to 20%  |
| Automobiles and trucks                                 | Various    |
| Miscellaneous equipment, office furniture and fixtures | 10% to 20% |

Accelerated depreciation methods are used for income tax purposes. Depreciation for tax purposes exceeds book depreciation, and deferred taxes are provided.

Maintenance and repairs are charged to expense as incurred. Significant replacements and betterments are capitalized.

The composite method is used for depreciation, and only abnormal gains and losses on sales or abandonments of property are included in income.

**Research and Development** Costs are expensed as incurred.

**Advertising** Costs are expensed as incurred.

**Investment Tax Credits** Investment tax credits are deferred and amortized over the estimated useful lives of the related assets. At June 30, 1976, \$11,310,000 of deferred tax credits are included in deferred income taxes.

**Undistributed Non-U.S. Earnings** Except for minor amounts, no federal income taxes have been provided on the undistributed net income of non-U.S. subsidiaries since these amounts are expected to be permanently invested in those countries.

**Pension Plans** The provision for pensions charged to income each year is sufficient to cover normal costs of the plans of the Company and its subsidiaries and, for the principal plans, amortization of prior-service costs over 40 years or less. Effective January 1, 1976, the Company made certain amendments to its pension plans, principally to reflect the provisions of the Pension Reform Act of 1974. These changes did not have a material effect on pension costs, which amounted to \$9,389,000 in 1976 and \$9,001,000 in 1975. Pension funds are in excess of the actuarially computed value of vested benefits.

**Income Per Share** Net income per common share is based on the weighted average shares outstanding. Dilution resulting from the exercise of stock options presently outstanding and conversion of preferred stock is not significant.

**Non-U.S. Operations** Summarized financial information for non-U.S. operations follows:

|                                   | Thousands of Dollars |                  |
|-----------------------------------|----------------------|------------------|
|                                   | 1976                 | 1975             |
| Assets:                           |                      |                  |
| Current assets                    | \$134,877            | \$120,420        |
| Property, plant & equipment — net | 64,038               | 60,894           |
| Other assets                      | 19,358               | 16,398           |
|                                   | <u>\$218,273</u>     | <u>\$197,712</u> |
| Less:                             |                      |                  |
| Current liabilities               | \$ 72,371            | \$ 63,975        |
| Other liabilities                 | 18,441               | 22,753           |
|                                   | <u>\$ 90,812</u>     | <u>\$ 86,728</u> |
| Total net assets                  | <u>\$127,461</u>     | <u>\$110,984</u> |
| Net assets:                       |                      |                  |
| Canada                            | \$ 23,495            | \$ 21,366        |
| Europe                            | 62,450               | 45,186           |
| Latin America and Pacific         | 41,516               | 44,432           |
| Total                             | <u>\$127,461</u>     | <u>\$110,984</u> |
| Net sales:                        |                      |                  |
| Canada                            | \$ 98,209            | \$ 83,939        |
| Europe                            | 201,856              | 181,982          |
| Latin America and Pacific         | 122,648              | 107,749          |
| Total                             | <u>\$422,713</u>     | <u>\$373,670</u> |
| Reinvested earnings               | <u>\$ 67,805</u>     | <u>\$ 60,517</u> |



In 1976, the exchange and translation loss amounted to \$850,000 and was charged to income. The reserve for unrealized translation gains, included in other liabilities, decreased by \$74,000 during the year and at June 30, 1976 was \$1,228,000.

In 1975 the net exchange and translation loss amounted to \$2,008,000 and was charged to income. The reserve for unrealized translation gains, included in other liabilities, increased by \$12,000 during the year and at June 30, 1975 was \$1,302,000.

**Acquisitions** During fiscal 1976, the Company acquired the remaining interest in its French joint venture, Quaker France S.A., for approximately \$4,262,000 in cash in a purchase transaction. The results of operations of this business, which are not material, are included in the Consolidated Statement of Income. The related excess of cost over fair value of net assets acquired is \$3,592,000.

**Preferred Stock** Each \$3 cumulative preferred share, redeemable by the Company at \$58 per share, is convertible at the holder's option into 2.475 shares of common stock. There were 283 shares of preferred stock converted into common during 1976 and no shares were converted during 1975. At June 30, 1976, there were 351,007 shares of common stock reserved for conversion of the \$3 cumulative preferred stock.

**Preference Stock** On May 29, 1975, the Company issued 500,000 shares of \$9.56 cumulative preference stock with a stated value of \$100 per share. This stock is redeemable, at the option of the Company, in whole or in part at prices decreasing from \$109.56 per share currently to \$100 after July 19, 2000, except that until July 20, 1980, such redemption cannot be made from the proceeds of indebtedness or the issuance of stock other than common stock having a cost of less than 9.56%. Each year, commencing on July 20, 1981, the Company must make payments to a sinking fund in an amount adequate to retire a minimum of 20,000 shares (maximum 40,000 shares) of preference stock at \$100 per share, plus accrued dividends to the redemption date. An additional 1,000,000 shares of preference stock, without par value, is authorized but unissued.

**Common Stock** Changes in common stock, additional paid-in capital and treasury common stock during 1975 and 1976 are summarized as follows:

| Thousands of Dollars                                                                           |                   |                  |                              |                |                |
|------------------------------------------------------------------------------------------------|-------------------|------------------|------------------------------|----------------|----------------|
|                                                                                                | Common Stock      |                  | Add'l.<br>Paid-in<br>Capital | Treasury       |                |
|                                                                                                | Shares            | Amts.            |                              | Shares         | Amts.          |
| Balance,<br>June 30, 1974                                                                      | 20,948,922        | \$104,745        | \$23,882                     | 249,914        | \$5,627        |
| Issuance costs of<br>preference stock                                                          | —                 | —                | (1,068)                      | —              | —              |
| Balance,<br>June 30, 1975                                                                      | 20,948,922        | 104,745          | 22,814                       | 249,914        | 5,627          |
| Common stock issued<br>for exercise of<br>options and for<br>conversions of<br>preferred stock | 30,547            | 152              | 379                          | —              | —              |
| Balance,<br>June 30, 1976                                                                      | <u>20,979,469</u> | <u>\$104,897</u> | <u>\$23,193</u>              | <u>249,914</u> | <u>\$5,627</u> |

**Stock Options** At June 30, 1976, 763,838 unissued shares of common stock were reserved for issuance upon the exercise of outstanding stock options, and an additional 97,548 unissued shares were available as of that date for granting additional options. Options are granted at not less than fair market value at date of grant. Option prices range from \$13.13 to \$42.82 per share. During 1976, options for 10,985 shares were granted at a price of \$25.19 per share, 29,849 options were exercised, and options for 167,521 shares were terminated. During 1975, options for 411,125 shares were granted at prices ranging from \$13.13 to \$15.06 per share, no options were exercised and options for 128,853 shares were terminated.

**Reinvested Earnings** Under the most restrictive terms of the various note agreements in effect at June 30, 1976, \$176,391,000 of reinvested earnings, as of June 30, 1976, was not available for payment of cash dividends and/or certain other distributions to preferred, preference and common shareholders; and minimum working capital of \$175,000,000 must be maintained.



### ***Cash and Marketable Securities***

|                                           | Thousands of Dollars |                  |
|-------------------------------------------|----------------------|------------------|
|                                           | 1976                 | 1975             |
| Cash                                      | \$ 1,363             | \$ 13,174        |
| Time deposits and certificates of deposit | 66,173               | 2,222            |
| Marketable securities                     | 10,333               | 2,211            |
|                                           | <u>\$ 77,869</u>     | <u>\$ 17,607</u> |

Marketable securities are stated at cost, which approximates market.

### ***Short-Term Debt***

|                                                                       | Thousands of Dollars |                  |
|-----------------------------------------------------------------------|----------------------|------------------|
|                                                                       | 1976                 | 1975             |
| Notes payable to banks —                                              |                      |                  |
| Non-U.S. subsidiaries                                                 | \$24,833             | \$ 23,506        |
| Commercial paper —                                                    |                      |                  |
| Dealer placed                                                         | —                    | —                |
| Master trust notes                                                    | 21,407               | 5,022            |
|                                                                       | <u>\$46,240</u>      | <u>\$ 28,528</u> |
| Weighted average interest rates on debt outstanding at end of year —  |                      |                  |
| Notes payable to banks — non-U.S.                                     | 12.5%                | 11.7%            |
| Commercial paper                                                      | 5.9%                 | 6.1%             |
| Weighted average interest rates on debt outstanding during the year — |                      |                  |
| Notes payable to banks — non-U.S. (computed on quarter-end balances)  | 11.5%                | 11.7%            |
| Commercial paper (computed on daily balances)                         | 6.2%                 | 10.3%            |
| Weighted average amount of debt outstanding during the year           | \$54,816             | \$111,000        |
| Maximum month-end balance during the year                             | \$74,389             | \$169,000        |

## Long-Term Debt

|                                                                                                                  | Thousands of Dollars |                  |
|------------------------------------------------------------------------------------------------------------------|----------------------|------------------|
|                                                                                                                  | 1976                 | 1975             |
| Solid waste disposal revenue bonds                                                                               | \$ 15,000            | \$ —             |
| 7.70% sinking fund debentures, \$1,800,000 due annually from 1977 through 2001                                   | 50,000               | 50,000           |
| 7.80% notes, \$3,700,000 due annually from 1980 through 1989 and \$3,800,000 due annually from 1990 through 1994 | 56,000               | 56,000           |
| 8¾% note, \$1,665,000 due annually from 1980 through 1994                                                        | 25,000               | 25,000           |
| Note payable, due 1980                                                                                           | —                    | 20,188           |
| Capitalized lease obligations                                                                                    | 1,729                | 1,684            |
| Obligations of non-U.S. subsidiaries                                                                             | 2,969                | 6,089            |
|                                                                                                                  | <u>\$150,698</u>     | <u>\$158,961</u> |
| Less: Current maturities                                                                                         | 2,030                | 678              |
|                                                                                                                  | <u>\$148,668</u>     | <u>\$158,283</u> |

Under arrangements with the Gulf Coast Waste Disposal Authority, Houston, Texas, \$15,000,000 in solid waste disposal revenue bonds were issued in June, 1976. Of these, \$3,000,000 carry an interest rate of 5½% and the remaining \$12,000,000 have an interest rate of 6½%. The proceeds provide financing for the acquisition and construction of solid waste disposal facilities at the Company's new chemical plant in Bayport, Texas. The 5½% bonds are due 1991 and may be called on any interest payment date on or after May 1, 1986, at rates decreasing from 103% to 100% on May 1, 1991. The 6½% bonds are subject to sinking fund redemptions of \$1,000,000 from 2000 to 2002, and additional redemptions increasing by \$500,000 per year from 2003 to 2006; optional redemptions may be made on any interest payment date on or after May 1, 1986, at rates decreasing from 103% to 100% on May 1, 1992.

The 7.70% debentures may be called at any time at prices decreasing from 106.2% currently to 100% after June 15, 1996, except that, until June 15, 1981, such redemption cannot be made from the proceeds of any refunding operation having an interest cost of less than 7.70%.

The 7.80% notes may be called at any time at prices decreasing from 107.8% currently to 100% in 1994, except that, until April 1, 1984, no prepayment may be made from the proceeds of any refunding operation by the application of borrowed funds.



The 8¾% note may be called at any time at prices decreasing from 108.3% currently to 100% after July 1, 1993, except that, until July 1, 1984, no prepayment may be made from the proceeds of any refunding operation having an interest cost of less than 8¾%.

Aggregate required payments for fiscal years 1977 through 1981 on long-term debt are: \$2,030,000, \$2,366,000, \$2,380,000, \$6,713,000 and \$7,482,000, respectively.

The Company has a revolving credit agreement, none of which has been utilized, that provides for \$75,000,000 in either domestic or Eurodollar borrowings at the Company's option and expires June 30, 1979. The agreement requires a commitment fee of ½ of 1% for any unused portion.

The Company, in addition to the unused \$75,000,000 revolving credit agreement, has approximately \$100,000,000 available in unused domestic bank lines of credit to meet general corporate purposes. The Company's non-U.S. subsidiaries had additional unused lines of credit of approximately \$43,000,000 at June 30, 1976.

The Company has informal arrangements with certain banks to maintain balances in compensation for credit facilities. These compensating balance arrangements, which totalled about \$6,180,000 at June 30, 1976, are based on the average annual amount on deposit according to bank records and impose no restrictions upon the Company's withdrawal of funds. At certain other banks, compensation for credit facilities is on a fee basis.

**Leases** The Company and its subsidiaries lease certain equipment and operating properties under non-cancellable leases which expire at various dates through 2062. Certain of these leases are non-capitalized financing leases as defined by the Securities and Exchange Commission. The present value of non-capitalized financing leases and its effect on net income are not significant. Subleases and contingent rentals also are not significant.

Total rental expense for 1976 and 1975 was:

|                                  | Thousands of Dollars |                 |
|----------------------------------|----------------------|-----------------|
|                                  | 1976                 | 1975            |
| Non-capitalized financing leases | \$ 2,394             | \$ 1,476        |
| Other                            | 12,932               | 12,413          |
|                                  | <u>\$15,326</u>      | <u>\$13,889</u> |

Future minimum annual rentals on non-cancellable leases in effect at June 30, 1976 are:

| Fiscal<br>Years | Thousands of Dollars                            |           |                           |       |         |
|-----------------|-------------------------------------------------|-----------|---------------------------|-------|---------|
|                 | Financing<br>(Primarily<br>Office<br>Equipment) | Operating |                           |       | Total   |
|                 |                                                 | Buildings | Distribution<br>Equipment | Other |         |
| 1977            | \$2,344                                         | \$5,434   | \$775                     | \$156 | \$8,709 |
| 1978            | 1,440                                           | 4,821     | 527                       | 149   | 6,937   |
| 1979            | 151                                             | 4,389     | 320                       | 140   | 5,000   |
| 1980            | 38                                              | 4,317     | 269                       | 15    | 4,639   |
| 1981            | 18                                              | 4,213     | 269                       | 13    | 4,513   |
| 1982-1986       | 67                                              | 23,852    | 166                       | 43    | 24,128  |
| 1987-1991       | 65                                              | 5,476     | —                         | 43    | 5,584   |
| 1992-1996       | 65                                              | 3,961     | —                         | 43    | 4,069   |
| Thereafter      | 818                                             | 1,113     | —                         | 54    | 1,985   |

### *Provision For Income Taxes*

|                                                                                                    | Thousands of Dollars   |                        |
|----------------------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                                    | 1976                   | 1975                   |
| Currently payable —                                                                                |                        |                        |
| Federal                                                                                            | <b>\$33,724</b>        | \$15,094               |
| State                                                                                              | <b>4,969</b>           | 2,337                  |
| Non-U.S.                                                                                           | <b>16,468</b>          | 8,369                  |
| Deferred — (primarily federal taxes related to depreciation and, in 1976, effect of the Marx sale) | <b>(2,200)</b>         | 7,881                  |
| Deferred investment tax credit — net                                                               | <b>4,832</b>           | 2,575                  |
|                                                                                                    | <b><u>\$57,793</u></b> | <b><u>\$36,256</u></b> |



The provision for income taxes varied from the "expected" tax expense computed at 48% of income before income taxes, as follows:

|                                                                 | Thousands of Dollars |                    |                 |                    |
|-----------------------------------------------------------------|----------------------|--------------------|-----------------|--------------------|
|                                                                 | 1976                 |                    | 1975            |                    |
|                                                                 | Amount               | % of Pretax Income | Amount          | % of Pretax Income |
| Computed "expected" tax expense                                 | \$53,225             | 48.0%              | \$32,301        | 48.0%              |
| State and local income taxes, net of federal income tax benefit | 2,806                | 2.5                | 1,497           | 2.2                |
| Non-U.S. tax rate differential                                  | 1,965                | 1.8                | 1,839           | 2.7                |
| Miscellaneous items — net                                       | (203)                | (.2)               | 619             | 1.0                |
| Actual tax expense                                              | <u>\$57,793</u>      | <u>52.1%</u>       | <u>\$36,256</u> | <u>53.9%</u>       |

The change in the mix of domestic and international earnings was the principal reason for the lower effective income tax rate in 1976 compared to 1975.

### ***Other Expense***

|                                       | Thousands of Dollars |                 |
|---------------------------------------|----------------------|-----------------|
|                                       | 1976                 | 1975            |
| Commitment fees for credit facilities | \$ 432               | \$ 408          |
| Net exchange and translation losses   | 850                  | 2,008           |
| Toy division charges                  | 23,200               | 6,052           |
| Other — net                           | 4,001                | 622             |
| Total                                 | <u>\$28,483</u>      | <u>\$ 9,090</u> |

The 1976 toy division charges relate to the April 15, 1976, sale of substantially all of the assets of the Company's U.S. and Canadian Marx Toys business, as well as the stock of Marx Hong Kong operations. After related income tax benefits of \$11,300,000, net income was reduced by \$11,900,000, equivalent to \$.57 per common share. (Complete details of the Marx sale are on page 27.) The 1975 toy division charges are related to the elimination of certain toy lines and the consolidation of facilities. After related income tax benefits of \$2,019,000, net income was reduced \$4,033,000, equivalent to \$.19 per common share.

### ***Interest Expense – Net***

|                                                                                                     | Thousands of Dollars   |                 |
|-----------------------------------------------------------------------------------------------------|------------------------|-----------------|
|                                                                                                     | 1976                   | 1975            |
| Interest expense on long-term debt                                                                  | <b>\$12,092</b>        | \$16,532        |
| Interest expense – other                                                                            | <b>5,186</b>           | 11,622          |
| Interest income on marketable securities,<br>including time deposits and certificates<br>of deposit | <b>(2,719)</b>         | (1,141)         |
| Interest income – other                                                                             | <b>(1,133)</b>         | (572)           |
|                                                                                                     | <b><u>\$13,426</u></b> | <u>\$26,441</u> |

### ***Supplementary Income Statement Information***

|                                        | Thousands of Dollars   |                 |
|----------------------------------------|------------------------|-----------------|
|                                        | 1976                   | 1975            |
| Maintenance and repairs                | <b>\$34,989</b>        | \$28,977        |
| Depreciation                           | <b>\$32,964</b>        | \$29,576        |
| Taxes, other than income               |                        |                 |
| Real estate and personal property      | <b>\$ 5,053</b>        | \$ 4,315        |
| Payroll                                | <b>14,760</b>          | 13,377          |
| Other                                  | <b>2,146</b>           | 2,427           |
| Total                                  | <b><u>\$21,959</u></b> | <u>\$20,119</u> |
| Advertising media and production costs | <b>\$57,800</b>        | \$50,611        |
| Research and development               | <b>\$18,964</b>        | \$16,864        |

***Litigation*** The Federal Trade Commission, in a complaint filed on April 26, 1972, alleged that the ready-to-eat cereal industry is concentrated in and controlled by four industry members, including the Company, which members have diminished competition by avoiding price competition and by raising entry barriers through various practices such as brand proliferation, excessive and misleading advertising, exclusionary shelf-space programs, and acquisitions. The Federal Trade Commission has proposed an order requiring the other three respondents (but not the Company) to divest certain properties and license certain trademarks to other manufacturers, and prohibiting all of the respondents (including the Company) from acquiring other cereal manufacturers for twenty years and from providing shelf-space programs to customers. The Company has denied the charges and trial has recently begun. In the opinion of the Company's Vice President and Special Counsel, the Company has meritorious defenses to the allegations in the complaint. The Company believes that the litigation will have no material adverse effect on its business.



### ***Auditors' Report***

To the Shareholders of The Quaker Oats Company:

We have examined the consolidated balance sheet of The Quaker Oats Company (a New Jersey corporation) and Subsidiaries as of June 30, 1975, and June 30, 1976, and the related consolidated statements of income, reinvested earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of The Quaker Oats Company and Subsidiaries as of June 30, 1975, and June 30, 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

***Arthur Andersen & Co.***

Chicago, Illinois

August 25, 1976

***Corporate Headquarters***

Merchandise Mart Plaza, Chicago, Illinois 60654

***U.S. Transfer Agents and Registrars***

The First National Bank of Chicago

One First National Plaza, Chicago, Illinois 60670

The Chase Manhattan Bank

One Chase Manhattan Plaza, New York, New York 10015

***Dividend Disbursing Agent***

The First National Bank of Chicago

***Canadian Transfer Agent***

National Trust Company, Limited

21 King Street East, Toronto 1, Ontario

***Canadian Registrar***

Crown Trust Company

302 Bay Street, Toronto, Ontario

***Auditors***

Arthur Andersen & Co.

69 West Washington Street

Chicago, Illinois 60602

(312) 346-6262

***Shares Listed***

New York Stock Exchange — Midwest Stock Exchange

Pacific Coast Stock Exchange — The Toronto Stock Exchange

The Stock Exchange, London — Amsterdam Stock Exchange

Ticker Symbol: OAT

***Form 10-K***

The Form 10-K, a separate annual report filed each year with the U.S. Securities and Exchange Commission, provides additional information about the Company. To obtain a copy without charge, please write or call the Office of the Secretary, The Quaker Oats Company, Merchandise Mart Plaza, Chicago, Illinois 60654, (312) 222-6751.



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of the Board  
of Directors**

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Chairman and Chief Executive Officer  
Illinois Tool Works, Inc.  
(Diversified Products)  
Chicago, Illinois

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Senior Vice President  
Operations and Administration

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President and Chief Executive Officer  
Fleming Companies, Inc.  
(Wholesale and Retail Foods)  
Oklahoma City, Oklahoma

**\*Augustin S. Hart, Jr.**

Senior Vice President  
Planning

**Dr. Thomas C. MacAvoy**

President  
Corning Glass Works  
(Specialized Glass and Ceramic Products)  
Corning, New York

**\*Kenneth Mason**

Executive Vice President  
Grocery Products

**\*Archibald McClure**

Executive Vice President  
Diversified Businesses

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Chairman and Chief Executive Officer  
Certain-teed Products Corporation  
(Building Materials)  
Valley Forge, Pennsylvania

**G. G. Michelson**

Senior Vice President  
Macy's New York  
(Retail Merchandising)  
New York City

**Dr. Walter J. Salmon**

Associate Dean for Educational Affairs  
and Professor of Marketing  
Harvard Business School  
Boston, Massachusetts

**Frank C. Schell, Jr.**

Group Vice President

**Gilbert H. Scribner, Jr.**

President, Scribner & Co.  
(Real Estate Brokerage, Management &  
Appraisals)  
Chicago, Illinois

**\*Fred D. Stone**

Senior Vice President  
Finance

**\*Robert D. Stuart, Jr.**

President and Chief Executive Officer

**\*Robert N. Thurston**

Senior Vice President  
Corporate Affairs

**Arthur M. Wood**

Chairman and Chief Executive Officer  
Sears, Roebuck and Co.  
(Retail Merchandising, Insurance and  
other services)  
Chicago, Illinois

**\*Member of the Executive Committee**

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Mr. Wood, Chairman; Messrs. Meads  
and Salmon

**Compensation and Stock  
Option Committee**

Mr. Scribner, Chairman;  
Messrs. Cathcart and Harrison

**Public Responsibility Committee**

Mr. Cathcart, Chairman; Mrs. Michelson,  
Dr. MacAvoy

**Robert D. Stuart, Jr.**  
**President and Chief Executive Officer**

**Corporate  
Staff**

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**Senior Vice President—Operations and Administration**

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Vice President—Corporate Purchasing

**Thomas B. Bartel**  
Vice President—Corporate Personnel

**Lawrence M. Baytos**  
Vice President—Employee Relations

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Vice President—Corporate Operations

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Vice President—Corporate Taxes

**Richard D. Jaquith**  
Vice President and Treasurer

**Herbert E. Trenning**  
Assistant Treasurer

**Donald G. Wittmer**  
Corporate Controller

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**Senior Vice President—Corporate Affairs**

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Vice President and General Counsel

**Luther C. McKinney**  
Vice President, Special Counsel and  
Corporate Secretary

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Assistant Secretary

**Louis J. Mallardi, Jr.**  
Assistant Secretary

**Joann A. Pitcher**  
Assistant Secretary

**Howard J. Thomas, Jr.**  
Assistant Secretary

**Frank C. Schell, Jr.**  
**Group Vice President**



**Grocery  
Products Area** **\*Kenneth Mason**  
Executive Vice President  
Grocery Products Area

**Area Staff** **\*Frank J. Morgan**  
Group Vice President  
Grocery Products Operations

**\*Henry T. Chandler**  
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**\*Robert O. Nesheim**  
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Research and Development

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Vice President — Personnel

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Vice President — Consumer Services

**Robert E. Smith**  
Vice President — Quality Assurance

**Raymond C. Eggleston**  
Vice President and Controller

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Vice President — Marketing Services

**Dudley M. Ruch**  
Vice President — Marketing Research

**Mitchell A. Seltzer**  
Vice President — Advertising  
President, AdCom, Inc.

**Joan G. Stark**  
Vice President and Media Director  
AdCom, Inc.

**Area  
Profit Centers** **\*William D. Smithburg**  
President — Foods Division

**\*Royce S. Ramsland**  
Vice President — Purchasing,  
Foods Division

**George J. Yapp**  
Vice President — Operations,  
Foods Division

**\*Richard H. Glantz**  
President — Pet Foods Division

**Hedric E. Rhodes**  
Vice President — Product Management,  
Pet Foods Division

**Herbert H. Johnson**  
Chairman of the Board  
Wolf Brand Products

**U. B. Shockley**  
President — Wolf Brand Products

**\*Paul E. Price**  
Group Vice President  
International Grocery Products

**David R. Nogle**  
Vice President — Operations  
International Grocery Products

**\*Anthony J. Dimino**  
Vice President and Director  
Mexican Grocery Products

**\*Ronald G. Lagden**  
Vice President and Director  
European Grocery Products

**J. Byron Felter, Jr.**  
Vice President and Managing Director  
Quaker Oats, Ltd., The United Kingdom

**Jon K. Grant**  
President  
The Quaker Oats Company of Canada

***Diversified  
Businesses Area*** **\*Archibald McClure**  
Executive Vice President  
Diversified Businesses Area

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President—Chemicals Division

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Vice President and Scientific Advisor

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Vice President  
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Research and Development

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President—Magic Pan, Inc.

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Vice President—Operations

**Samuel T. Gentles**  
Vice President—Site Development

**\*Henry H. Coords**  
President—Fisher-Price Toys Division

**Harvey W. Busch**  
Vice President  
Planning and Information Systems

**James H. Frank**  
Vice President and Controller

**Robert H. Hicks**  
Vice President  
Research and Development

**Norman G. Schuller**  
Vice President—Engineering

**Charles J. Weinschreider**  
Vice President—Marketing

**John Zahorjan**  
Vice President—Operations

**\*Lowell S. Fixler**  
President—Needlecraft Division

**Edward R. Cowell**  
Vice President—Manufacturing

**Vincent W. Goeltz**  
Executive Vice President  
Herrschners, Inc.



"If this business were to be split up, I would be glad to take the brands, trademarks, and goodwill, and you could have all the bricks and mortar.

"And I would fare better than you."

**John Stuart**

**President 1922-1942**

**Chairman of the Board 1942-1956**

Why?

An easy question to answer, especially now that we're celebrating the hundredth year of The Quaker Man trademark. On September 4, 1877, it was officially registered at the U.S. Patent Office as a symbol of the purity and quality of the oatmeal and other products made and sold by the company.

A lot has happened since then; the world has changed dramatically. Quaker has changed with the times, too, but what that first trademark represented in 1877 remains basically the same today.

Many other well known brands and trademarks accompany The Quaker Man now, each adding its own unique identity to other foods and product lines.

There's Aunt Jemima — warm, friendly, inviting all to enjoy the high-value foods that carry her name.

There's Fisher-Price, rugged quality toys that millions of children are raised on, to later hand down to younger brothers and sisters, or perhaps keep in the toy box for the grandchildren.

There's Life Cereal for the entire family, and Cap'n Crunch for the children. Celeste, for pizza abundant with flavor. And Burry cookies and crackers.

For pets, there are no better foods than Ken-L Ration and Puss 'n Boots.

Magic Pan Restaurants have distinctive flair, offering crepes filled with everything good to eat.

And specialty chemicals; and Needlecraft, to express individual creativity.

Around the world, consumers are not only familiar with many of our U.S. family of brands and trademarks, but also know Carlos V chocolate products in Mexico, Felix and Chunky pet foods in the United Kingdom, Kalas Flingor ready-to-eat cereal in

Scandinavia, Fido dog food in France, Frescavena oat-based beverages in Latin America, Pamper cat food in Canada, Coqueiro canned sardines in Brazil, Luv pet foods in Australia, and many, many more.

When you come right down to it, The Quaker Man and our other trademarks not only represent fine quality products, but also have identities of their own; they are among the oldest and most recognized commercial symbols in the world. The goodwill of customers and employees has made them so.

John Stuart was right.

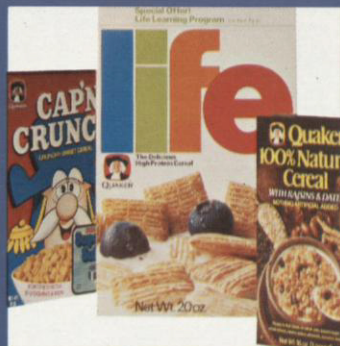
We are proud of our plants, buildings, and equipment. But the real consumer value of our business rests in those fine respected names and symbols, beginning with The Quaker Man himself a hundred years ago.

*New Aunt Jemima Frozen Pancake Batter, the market leader in its category, and the 72 oz. size of Quaker Oats, which makes this traditional favorite even more economical.*



*Traditional Fisher-Price quality is built into the new Freddy Bear for infants and the Play Family Hospital for preschoolers.*

*Children and parents love these ready- to-eat cereals from Quaker.*



*Ken-L Ration dog food and Puss 'n Boots cat food – known to family pets throughout the land.*







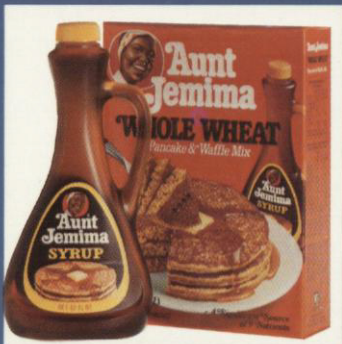
*International Grocery Products – including the leading chocolate business in Mexico, the principal sardine business in Brazil, and traditional Quaker Oats – a favorite around the world.*



*Harvest Crunch, similar to Quaker 100% Natural Cereal in the U.S., and Puss 'n Boots Bouchees de Choix (Flavor Morsels), leading products of The Quaker Oats Company of Canada.*



*Celeste frozen pizzas are abundant with flavor. There's a size and variety for everyone's taste.*



*Aunt Jemima Whole Wheat Pancake Mix and syrup – a delightful combination for any breakfast table.*



*Two new products for the family pets from Ken-L Ration and Puss 'n Boots.*



*Cherokee, one of the new Latch Hook wallhanging yarn kits, and Poppy, a cameo stitchery kit, both from Needlecraft.*



*Some of our very important international pet food products: Felix and Chunky in the United Kingdom, Flora in Holland, and Ken-L Ration in Argentina.*

*Burry manufactures Girl Scout Cookies and cookies and crackers for sale in selected area stores.*



**The Quaker Oats Company  
Merchandise Mart Plaza  
Chicago, Illinois 60654**